sented by eighteen members, while thirty-six members should 642
represent the professions and industries.[1] However, as Schober 646
pointed out, a reform of such magnitude could not be hurried
through in a few days—particularly as it would mean a further
increase in the number of officials.[2] It was anticipated, however, that another constitutional law would be passed dealing with this matter. In the meantime the composition of the Federal Council remained unchanged.[3]

A further step towards centralization was taken by extending 642
the control of the Court of Audit not only over provincial 635
finances but over districts which comprised more than twenty
thousand inhabitants.[4] Hitherto the control of the Court of 652
Audit had only been exercised in those Provinces which had not independent control organs of their own.[5] This change brought the finances of the city of Vienna under the control of the Court of Audit, and in consequence was bitterly opposed by the Social Democrats.

The right of appeal in matters dealing with provincial 642
administration was somewhat extended. 635

The powers of the State police were considerably extended 625
at the expense of those of the Provinces.[6] As a result of this legislation, the special municipal police force instituted in Vienna after the 1927 riots had to be disbanded. All State police were to be given an autonomous ordinance right, in virtue of which they could, under special circumstances, issue ordinances, which would have temporary validity, provided

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[1] *The Times*, 15 October 1929.

[2] *Reichspost*, 20 October 1929.

[3] But although no new legislation was introduced, a later paragraph referred to members of the Upper House as enjoying immunity in their capacity as members of Provincial Councils (Article 58, (1)). But the old Federal Council members, although they had to be eligible for election, could not themselves be members of local assemblies (Article 35, (2), 1920).

[4] Smaller districts could be included if the Provincial Government concerned so requested (Article 127).

[5] B. G. Bl. Nr. 268, 30 July 1925, Article 127, (1).

[6] Kelsen, *Jahrbuch des öffentlichen Rechts*, vol. xviii, p. 132. 'So gut wie die gesamte Sicherheitspolizei ist der Zuständigkeit der Länder entzogen, und dem Bunde übertragen. Diese Monopolisierung fast des gesamten Polizeiwesens beim Bund bedeutet, wenn man beachtet, dass auch das ganze Militärwesen u. die ganze Gerichtsbarkeit von allem Anfang an beim Bund lagen—einen Grad von Zentralisation, der mit dem Typus des Bundesstaates kaum mehr vereinbar ist.'

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

In making up their minds with regard to the Nazi legacy, the planners were influenced by all the various considerations that have just been described: the iron and steel works and the nitrogen plant at Linz, the aluminium works at Ranshofen were all in Western Austria and in the American zone; they were large nationalized industries, and their products were in great demand under post-War conditions. In addition, they were modern, they represented a large capital outlay, and they employed between 10,000 and 15,000 men. Closing them down, therefore, in deference to any long-term economic theory, could not seriously be considered. In determining the lines on which they should be developed, however, the future balance of the Austrian economy would have to be borne in mind. 185

Austria benefited under the European Recovery Programme in three different ways: through 'direct aid', 'indirect aid', and the use of the 'counterpart fund'. Every year the United States Government allocated to Austria a sum of money in dollars to cover the import of essential goods against dollars from the Western hemisphere. This was known as 'direct' or 'unconditional aid'. In special cases, dollars allotted in this way could be used for obtaining goods from countries not taking part in the recovery programme—for example, coal from Poland. Secondly, Austria was granted drawing rights to import goods from other European countries with which she had an unfavourable balance of trade, on the understanding that the country concerned would obtain payment in dollars from the United States. This was known as 'indirect' or 'conditional aid'. Its object was to stimulate trade between the participating countries and enable them to resume commercial contacts with their traditional suppliers and customers. Thirdly, goods brought into Austria with the aid of ERP dollars were paid for by the recipients in Austrian schillings, which were handed over to the Government and paid in to a special 'counterpart' account with the National Bank. The schillings that accumulated in this way could be used for two purposes only: productive investment for the benefit of the Austrian economy 457 457 652

457 and measures for the stabilization of the currency. Proposals
were put forward by the Austrian Government, but required
652 the approval of the Economic Co-operation Administration,
the highest administrative authority controlling the European Recovery Programme, which had its headquarters in Washington.

457 Under this whole system the greater part of the dollars made available by the United States were used to provide Austria with essential food and raw materials. At the same time a large proportion of the schilling equivalent of the dollars could be devoted to long-term projects that would strengthen the country's economy.

000 In dealing with the recovery programme in detail, it will be convenient to divide up the Austrian economy under eight main headings and treat each of the following separately: (i) agriculture, (ii) forestry and dependent industries, (iii) heavy industries, (iv) other manufactures, (v) fuel and power, (vi) minerals not covered under (iii) and (v), (vii) communications, (viii) the tourist industry. The division is rough and arbitrary, and the headings imply some overlapping, but it is an over-simplification convenient for dealing with a large and complicated subject in a limited space.

241 As has been seen, Austrian agriculture was in a lamentable
185 state when Marshall Aid began. If food production could be
increased and Austria became less dependent on imports, a considerable contribution would be made to improving her trade balance. Yet for several reasons agriculture was not a branch of economy that could easily be improved by foreign assistance. The great majority of the farms were small. The peasants were conservative and difficult to influence. Two of their main problems were lack of labour and the low level of agricultural prices, and these were problems that had to be solved by the Austrian Government itself.

The target was set, however, of restoring production to the pre-War level by 1953. Seeds, farm machinery, and feeding-stuffs were to be supplied. Above all, a much greater use of artificial fertilizer was to be encouraged. Before the War

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Austria was clearly not in a position to pay for her essential needs without foreign help, and it was of vital importance that she should not be subjected to economic strain that would threaten her political stability. The United States Government therefore decided to continue its assistance, though on a reduced scale. Direct Aid amounting to $70 million was promised in two instalments for the financial year 1952–3. The release of funds from the counterpart account was made conditional on the Austrian Government taking adequate measures to balance the budget and check inflation. 457

At the same time a growing body of expert and informed opinion in Austria was becoming convinced that the situation demanded a new outlook and a new policy. Austrians had acquired the habit of looking abroad for their economic salvation and blaming the Allies for the lack of a State Treaty. But the continuance of the occupation, which was the result of the conflict between Russia and the West, was Austria's heavy share of a burden borne by many countries. Against it could at least be set the sustained moral and material support of three of the occupying Powers. In the circumstances the only healthy attitude was to take energetic steps to strengthen Austria's economy and free it from dependence on foreign help that was being progressively reduced and could not last indefinitely. Such a policy would not have been feasible in the early post-War years, but conditions had so much improved after four years of Marshall Aid that there was now no real alternative for a people with pride in its past and faith in its future. 185

There were three aims about which there was little controversy: to stabilize the currency and prices, to encourage private saving, and to strengthen the competitive power of Austrian consumer goods in world markets.

There had at first been good reasons for the policy of controlled inflation on which the Austrian Government embarked after the War. But the reasons became progressively weaker the longer the policy was pursued, and, as has been seen, the fifth Price–Wage Agreement in 1951 had serious effects on 652 185

652 185 Austrian exports. The continuous devaluation of the schilling discouraged private saving. It also prevented stabilization of prices, because producers, who had to count on increasing costs of production, were reluctant to part with their goods. To restore faith in the schilling strong measures were required.

454 185 Private savings must be encouraged owing to the country's need of capital. The investment rate of the Marshall Aid years could certainly not be maintained, but in a highly competitive world Austria's industrial plant would have to be modernized and renewed, and hydro-electric development and the electrification of railways were vital to her future. International loans and foreign investment could be relied on to some extent, if conditions remained stable, but a high proportion of capital needs must be provided by the Austrian people themselves. In addition, the possibility of saving without loss would be an incentive to effort and increased efficiency.

185 Opinions differed as to the extent to which the consumer-goods industries had been neglected since the War, but there was general agreement that they deserved more attention in future. Austria's characteristic industrial asset is the quality, taste, and variety of her craftsmanship and the finished goods it produces. As the world returns to normal, the demand for these specifically Austrian products will grow and foreign countries' requirements of investment goods will be satisfied where they can be most cheaply produced.

Two further aims were subjects of considerable controversy: to economize drastically in State expenditure and to encourage competition in Austrian economic life.

On the one hand, it was maintained by the Right-Wing parties and the majority of professional economists that the budget should be rigidly examined and controlled, the whole administration overhauled, and the number of civil servants reduced. These measures, some held, should be combined with giving greater scope to the competitive elements in industry and reducing the influence of vested interests of all kinds. This last point of view was greatly stimulated by the issue in December 1951 of a Report by Mr. H. W. Johnstone

645 665 Minister, was a financial and economic expert who believed that the budget could only be balanced satisfactorily by stringent economy in national expenditure. The new Minister of Trade, Herr Böck-Greisau, was an experienced industrialist, with a special interest in export problems, who believed in free enterprise, and shared Dr. Kamitz' view on the need for economy. Both men were convinced exponents of the new policy of self-reliance and self-help.

453 Before the end of 1951 the Coalition Government's efforts to establish financial stability had already met with success. To restrict credit expansion the bank-rate was raised from 3½ to 5 per cent on December the 6th, while the trade unions and the employers collaborated to keep prices down. 454 During the first four months of 1952 savings-bank deposits rose by 538 million schillings, compared with an increase of only 77 million schillings during the whole of 1951.

645 665 One reason why the People's Party appointed the new Ministers was that it wished to strengthen its representation in the Cabinet. But it believed also that their policy was what Austria needed at the time. A natural result of its action, however, was that the policy tended to become a party issue, although it had virtually been started before the Cabinet changes took place.

645 ● 652 665 The new Ministers were energetic and uncompromising in carrying out the measures in which they believed. Within a few months of his taking office Herr Böck-Greisau was with difficulty dissuaded from relinquishing his post on a question of principle. During the autumn party differences came to a head over Dr. Kamitz' proposals for an economy budget. The People's Party was mainly interested in a deflationary policy to maintain the value of the schilling. The Socialists wanted bigger expenditure on public works and new housing projects in order to keep up employment. No agreement could be reached, and so, as has been seen, the Government resigned. Pending the elections a temporary compromise budget was accepted by both sides.

652 Before the elections took place the new economic policy

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had achieved considerable success. The currency had been stabilized. Between December 1951 and December 1952 wholesale prices had dropped 6·4 per cent and the cost of living 1 per cent. With unimportant exceptions wages had remained constant. Total savings during 1952 amounted to over a billion schillings, compared to the 77 million in 1951. Although the gross national product only just kept up to the level for the previous year, the foreign trade position improved substantially. Figures available in February 1953 showed a drop in the balance-of-trade deficit from 4·3 billion schillings in 1951 to 3·1 billion in 1952, while the balance-of-payments deficit fell from $176 million to $100 million. 652

The Ministers of Trade and Finance deserved great credit for this achievement. But it must be remembered that they were members of a coalition government and that the policy of stabilization had begun before their appointment. Furthermore, the policy depended for its success on the voluntary action of both industrialists and trade unions in keeping down prices and wages.

During the election campaign a large measure of agreement on economic and financial policy was revealed between the Socialists and the People's Party, but the gap between the two points of view, which had made elections necessary, could not be closed entirely. The serious deterioration in the employment situation accentuated the differences on this vital issue. At the end of 1952 there were nearly 100,000 more unemployed than there had been in December 1951, and throughout 1952 the average number of unemployed had been 158,000, compared with 117,000 the previous year. 464 665

The deadlock that followed the elections and delayed the formation of a new Government for more than five weeks was proof of the stubbornness of the differences. The replacement of Figl by the industrialist Raab made it clear that a long-term compromise could not be expected: the Coalition survived, but for external, not for internal reasons. It was, nevertheless, encouraging that Austria's two main political parties should have 642 665

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VIII

Currency, Prices, and Wages

FOR those with no personal experience of rapid and uncontrolled inflation the full significance of the Austrian Government's post-War measures to regulate currency and prices is not easy to appreciate. The average Austrian found them complex and even mysterious, but he had no doubt about their importance. Between 1945 and 1951 the Government passed three major laws dealing with the currency and approved five agreements regulating wages, prices, and cost of living. Apart from their financial and economic results, these measures had considerable social and political implications. In fact, their effects on political life and society are likely to be the more lasting. 652 436

Immediately after the liberation Austria was faced with two major financial problems: she had no national currency of her own and the banks were virtually empty. The need to establish an Austrian currency was urgent. The country was being flooded with German mark notes from Czechoslovakia and Hungary, where they were considered valueless, and the occupying Powers were temporarily printing their own money, which soon reached a total of about a billion schillings. Almost all the banks' cash had been removed by the Russians, and their main 'assets' were in the form of valueless German Government Bonds. It was for this reason that the Provisional Government was unable to pay any public servant more than 150 marks a month. It was only able to do as much because the Russians made available as a 'loan' 600 million marks taken very largely from the sums that they had seized.

The Government decided that it could take no steps to establish an Austrian currency until the country was united. But on the 3rd of July 1945 the so-called *Schaltergesetz*, or Counter Law, was passed, covering withdrawals from banks. 652 454

[p. 133]

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● 652 This law amounted to a modified moratorium and was re-
454 stricted to the area occupied by the Russians, in which the Provisional Government's authority was recognized. In the Western zones monetary transactions remained free.

Holdings were to be divided into two categories, funds deposited before the 5th of July being known as 'old accounts' and those deposited from the 5th of July onwards becoming the 'new accounts'. The latter were to be completely free, whereas 60 per cent of the 'old accounts' were to be blocked, the remaining 40 per cent being available under certain conditions. If the need were proved, 150 marks a month could be drawn per household as a subsistence allowance from either the blocked or the unblocked portions of the 'old accounts'. So far as the unblocked 40 per cent were concerned, transfers between banks could be made without permission, and the money could be used with a permit for a number of essential purposes, such as payment of wages, salaries, rents, insurance premiums, and maintenance during sickness. With the Finance Ministry's special approval, funds from the blocked 60 per cent could be employed for particular projects, such as economic enterprises of urgent importance to the country.

Complaints were afterwards made that during the next two years the Ministry allowed too many releases of blocked funds and that certain favoured and influential individuals were able to utilize the whole of their 'old accounts'. A number of officials were accused of partiality and corruption in consequence.

The Counter Law catered for the poor by its provision of subsistence allowances. It also laid down conditions under which the well-informed and the ingenious could employ at least a proportion of their funds for their own purposes. Those who came off worst were the thrifty, the aged, and the lonely, who were dependent on their savings, were unacquainted with the details of the law, and were not fortunate enough to have active and altruistic advisers. This weakness is no doubt characteristic of most currency legislation. It was certainly common to the three main currency laws passed in post-War Austria.

The recognition of the Provisional Government by the 652
Western Allies in October 1945 and the elections in November
cleared the way for the re-establishment of an Austrian national 436
currency. On the 30th of November the interim Government, without waiting for the formation of the Figl Cabinet, announced its approval of a 'Schilling Law', and one of the first acts of the new Parliament on the 21st of December was to pass this measure.

The law replaced the German mark and pfennig by the Austrian schilling and groschen at the rate of 1 for 1. All German currency except for denominations lower than ten marks was to be exchanged for the new Austrian schillings, and the same applied to the Allied Military Schillings which had been issued as a temporary currency. Everyone received 150 schillings in cash and the rest was credited to his account. Marks in lower denominations were exchanged for schillings during February and March 1946.

The second main purpose of the Schilling Law was, in 652
general terms, to extend the provisions of the Counter Law
from the area occupied by the Russians to the whole of Austria. 454
The details were inevitably complicated owing to the different situations in each part of the country and owing to the decision to place in a separate category funds deposited between the 1st and the 22nd of December 1945. Roughly, however, the division of accounts continued into 60 per cent that was blocked and 40 per cent that was conditionally free, although minor alterations were made in the conditions under which the free funds could be used. Deposits made after the 22nd of December 1945 could be used without restriction.

Some disappointment and bitterness were felt in Russian-occupied Austria that 60 per cent of the 'new accounts' were now blocked, as the people had been given to understand that deposits made on or after the 5th of July 1945 would be freely at their disposal. On this assumption, after the Counter Law was passed, the public had confidently continued to use the banks for their savings.

Subject to Allied supervision, the Schilling Law gave back to 652

65✓ Austria her financial independence. It also acted as a stimulus to trade and a check, though a purely temporary check, on inflationary tendencies. Dr. Renner has described how the legislation re-establishing the schilling lay for weeks in his drawer awaiting the re-unification of the country. So long as uncertainty regarding the currency continued, merchants preferred to hold on to their limited stocks of goods, and trade was restricted. So long as Austria continued to use German money, marks flowed across the frontier and prices were inflated. An immediate result of conversion was a substantial fall in the black-market prices of commodities and foreign currencies.

65✓ 454 The provisions of the Counter and Schilling Laws blocking 60 per cent of the 'old' and 'new accounts' were interim, in so far as no indication was given as to the final fate of the blocked credits. This question was settled by the Currency Protection Law of the 19th of November 1947.

65✓ 458 By the autumn of 1947 serious inflationary tendencies had begun to reveal themselves. There was a growing belief that currency reform was necessary, and rumours that it was imminent made the situation worse. Goods were hoarded, prices rose, and holders of capital showed anxiety to invest at any cost. In introducing the Currency Protection Law the Government's main purpose was to stabilize the schilling by reducing note circulation and finally liquidating the blocked accounts, from which there had been increasing demands for releases during recent months.

65✓ 454 The law in its full details was very complex. But its main provisions were as follows. The existing currency was to be replaced. Every individual could exchange his note-holdings on the basis of three old schillings for one new, although each person was allowed 150 schillings at the rate of 1 for 1. Blocked accounts were forfeited to the State, and the unblocked portions of the 'old accounts' were converted into 2 per cent Government bonds. All free accounts, which included deposits made between the 23rd of December 1945 and November 1947, retained their full value, but, in so far as they exceeded 1,000

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schillings, half of each account was to be blocked for six months, and a quarter for a further three months. 657 454

Some attempt was made to distribute the burden in accordance with capacity to pay. Those in need were allowed to retain limited amounts from their blocked accounts up to a maximum of 3,500 schillings, and under this provision payments amounting to about 500 million schillings were in fact made in monthly instalments to 300,000 people. A capital levy was also announced, for which the necessary legislation was passed the following July. It imposed graduated taxes on capital and capital increment which were to be spread over a number of years. [651]

The essence of successful currency legislation is that it should be introduced unexpectedly and implemented immediately, so that no one should have time to take evasive action. Such procedure was not possible in Austria in 1947 owing to the provision of the Allied Control Agreement which laid down that laws went into effect, if not vetoed, thirty-one days after they had been submitted to the Allied Council. Nevertheless, the Austrian Government might have handled the situation with greater skill. In the end, it secured Soviet approval of the Defence Protection Law at the heavy price of accepting the Russians' terms for the settlement of their 1945 'loan'. With Allied consent the law then went into effect ten days ahead of the normal time. It would have been worth paying an even heavier price to obtain Russian approval in advance, so that the three weeks' delay between the publication and execution of the law could have been avoided. 652 727

As it was, the situation during the three weeks' interval was grotesque, and the effectiveness of the law itself was seriously diminished. Evasive action was carried out on the widest scale, the most quick-witted and unscrupulous coming off best. Nobody was anxious to sell anything for money that was about to be devalued, and, in spite of Government regulations to the contrary, many shops could not be persuaded to remain open. People revealed a sudden enthusiasm for paying debts, and creditors could hardly refuse payment in a currency in 652

● 65-2 which the debts themselves had been incurred. The Government received payment not only for taxes that were already due but for taxes that were to be levied during the coming year, though it naturally gave notice that it could not accept payments in advance. The Austrians appreciated the comic side of the situation, but many realized that the comedy was being played at the expense of their country's interests. It was estimated that evasion and manipulation reduced the deflationary effect of the law by over a billion schillings.

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Apart from the way in which it was introduced, the Defence Protection Law was no final solution of the inflationary problem. It was not accompanied by the strong financial measures necessary to ensure financial stability and restore full confidence in the schilling. Little or no inducement was given to the Austrian people to resume the habit of saving. But in the winter of 1947–8 the time had not yet arrived for a more comprehensive settlement. Austria's political situation was uncertain; her economic position still precarious. It is probable that the law, though a half-measure, went as far as was reasonable at the time.

The immediate result was a decisive check to inflationary tendencies. On the 7th of November the note circulation and the free accounts at the National Bank amounted to 9 billion schillings in all. Immediately after the law went into effect the combined total had fallen to 5·6 billion schillings, and at the end of January it had only risen by 100 million schillings. For many Austrians the currency reform marked the beginning of real recovery, in spite of the financial sacrifices it had imposed. Goods became more plentiful and prices fell. By Easter 1948 new signs of hope could be seen in the faces of the long-suffering Viennese. The following October, less than ten months after the reform became effective, black-market food prices, which in November 1947 had been about twenty-three times as much as the official prices, were only three to five times as high. In the case of luxuries, such as cigarettes, the black-market and official prices were very close to each other. These developments brought new confidence and had a

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stimulating effect upon trade. There is no doubt that the currency 652 reform made a substantial contribution to the economic 458 revival associated with the beginning of Marshall Aid.

The social results of the reform were less fortunate. The law, as has been seen, made limited concessions to the needy, but 652 they were of small help to many who were dependent on their savings and whose earning days were past. On the other hand, the treatment of the well-to-do was very uneven. The holders of large bank balances came off worst, while the owners of real estate and valuables, in spite of the capital levy, were more fortunate. The most unfair feature of all was that industrialists, who were in the best position to renew their wealth, could retain it most easily in the form of stored goods. When currency adjustments become necessary, they are always accompanied by injustice, and the results mentioned were, to some extent, the inevitable consequences of inflation. But more might have been done by the Government to help those least able to make their influence felt and to help themselves.

Throughout the years from 1945 and 1951 the Austrian 458 economy was subject to persistent inflationary pressure. It was checked very temporarily by the Schilling Law and restrained for the best part of two years by the currency reform. But the forces making for inflation were never absent, and the political and economic climate was such that the Government did not consider itself in a position to attempt a fundamental cure. The schilling steadily lost value, until in 1951 it was worth about one-seventh of what it had been in 1945. The following table[1] shows the rise in the cost-of-living index between 1945 and 1951:—

1945	April	100·0
1946	April–December	125·7
1947	,, ,,	248·1
1948	,, ,,	378·0
1949	,, ,,	484·3
1950	,, ,,	547·7
1951	,, ,,	700·1

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[1] Prepared by the Austrian Institute of Economic Research.

INTRODUCTION

121 In my capacity as Foreign Consultant to the Library of Congress, I attempted to provide in this study a report on Austria's postwar economic problems accompanied by a short survey of the Austrian economic theory and related literature.

The survey deals with the reconstruction of Austria in the period from 1945 until 1952, and the major economic elements and features sponsoring the reconsolidation of the country are considered. 847 The ideological reflections elaborated therein are the result of those basic decisions which had been shaped within the scope of the Ministerial Committee for Economic Questions, which is a sub-committee of the Federal Austrian Government. The Ministerial Committee for Economic Questions is a joint bipartisan committee consisting of representatives of the Austrian People's Party and of the Socialist Party of Austria and functions in accordance with the constitutional rules of the Austrian Federal Government. Consequently, resolutions made by it require in each case unanimous vote of its members. Built up on this fundamental basis are the big investment programs of the Austrian Federal Government, which have been carried through during the last years, particularly after the ERP Program started. These programs are set up by the ERP Central Office of the Federal Chancellory in permanent consultation with the competent Ministerial Departments and the interested parties of industry, trade and commerce before a definite decision is taken by the Ministerial Committee for Economic Questions, whence they are reforwarded to the respective sections of the ECA Service.

465 As regards the five agreements about wages
435 and prices reached in the years from August 1947,
they were negotiated and passed as a result of
652 common deliberations between the various interested economic associations (Federal Chamber of Industrial Activities, the Chamber of Agriculture, Labor and Trade Union), whereby, in this sector which is so important to the whole economy of the country, a middle line was maintained and the political interests coordinated as far as possible. In this connection it might be considered that all political parties agree in the view that the real wages and salaries of the workers and employees should be maintained, thus

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435 preventing a disastrous decline in the buying power
445 of the broad classes of the population. The unavoidable adjustment of certain distortions in prices as
652 well as the entire stabilization of wages and prices
was undertaken on the basis of the economic, budgetary
and credit policy. This applied also to the coordination of prices of specified agrarian products which,
in the general development, have to a large extent re-
459 mained below an adequate level. These adjustments were
662 intended chiefly to insure an utmost favorable development of savings deposits and the initiated investment
program without intensifying inflation. The promotion
of capital accumulation, thereby encouraging the influx
of new savings capital to the banks and institutions,
and the systematic consolidation of capital reserves
of the insurance companies and of the social insurance
institutions will, particularly in Austria, gain special
importance in the coming years. As a consequence of the
elimination of the counterpart funds and of the relative
slow reflux of the means invested, resulting in limited
possibilities of rediscount with the National Bank, the
necessarily long-postponed replacement of the long-term
and expensive bank credit to the capital investment
market has been initiated. Expressed in other words
this means that the reconstruction of the capital basis
of economy, by opening the cheaper sources of financing
offered by the capital market, should facilitate new
short and middle-term credits and consolidate long-term
credits which had previously been granted (especially
investment and reconstruction credits). It should also
contribute to an improved competition of Austrian products on the world markets through an adequate reduction
of one of the chief factors of the basic cost price,
i.e., credit procurement.

185 All measures of an economic-political nature
652 which are taken, however, are not applied in a purely
dogmatic way. They are effected within the ideology of
the two big political parties of Austria and thus of
the Federal Government which is sustained by the coalition in power. It might be explained that the economic
political measures described in the following survey are
approved in principle by both of the leading political
parties, though it may be that they differ somewhat as
to the means and methods of reaching determined aims of
political economy.

185 The problem of increasing economic productive-
433 ness receives particular attention from the Austrian
Federal Government and the Austrian Productivity Center.
Labor and management are equally represented in this

727 [461] [433] In comparison to prewar times a definite lowering of individual performance efficiency had set in among the rest of the population caused by years of undernourishment and poor general physical condition aggravated by a series of psychological strains up to 1947. Another thing to be taken into account was the reorientation of the entire European economic structure in the wake of political changes, particularly the solution of certain problems of large industrial enterprises (the iron and steel industry). Last but not least were the great economic and political changes which had taken place in the areas of Austria's traditional markets, eastern and southeastern Europe.

[454] The destruction of capital substance weighed particularly heavy. It was obvious that the greater part of savings capital, accumulated prior to 1945, was economically no longer covered. Within the scope of a planned war economy that money had either been invested in weapons and war material which became valueless, or it was originally invested in profitable enterprises which were destroyed or diminished through the effects of the war, e.g., plants, equipment, razed woodland, etc. On the other hand, in accordance with instructions of the German finance administration, great parts of the liquid assets and reserves of banks, the premium reserves of large insurance companies, etc., had to be invested in bonds of the German Reich (especially Reichsschaftsanweisungen), whose value became as questionable as savings deposits.

652 ● In view of these circumstances the Austrian federal government faced difficult problems. For the sake of simply existing it was necessary to reestablish the financial foundation, a task impossible to accomplish without a proper Austrian currency (to be newly created), without gold or foreign exchange reserves to cover this currency, without a national bank of issue, without reconstruction of a banking and credit apparatus, and particularly without first straightening out the balances essential to large banking institutions.

433 [438] Not any less difficult to solve, in relation to the previously mentioned conditions, was the second problem: the revival of production and trade. Apart from incurred losses in plants, machinery and raw materials, the disorganization of communication and the dislocation of great parts of the population, valuable components of the production apparatus as well as other natural assets of the Austrian economy, classified as

493 so-called "German property," were lost to Austrian control and thus lost to the economy.

652 [127] In the foreground, however, was the organization of the currency and credit structure. Until November 1945, Allied Military schillings and the Reichsmarks of the former German administration formed the currency basis of the country. Approximately 7.7 billion Reichmarks and 1 billion Allied Miliary schillings were in circulation, representing an inflation of 850 percent above the 1937 level. This circulation, compared with the almost negligible volume of goods and the low production capacity, made the money practically worthless. Here, therefore, was where the first measures of reform had to be effected.

In 1945 the provisional government provided the first legal foundation for the reorganization of currency and the credit system by the law covering payments by banks (Schaltergesetz), the law covering public and private credit extension (Kreditlenkungsgesetz) as well as the "Notenbanküberleitungsgesetz," which reestablished the Austrian National Bank. It created therewith the preliminaries for an orderly banking and payment service, for the time being still under the statutory power of the then provisional government. With the "Schillingsgesetz" of November 30, 1945, introducing the first currency reform and establishing the schilling as legal tender, the three aforementioned laws were extended to cover the three western occupation zones, the country as a whole received a uniform currency and banking system.

The "Schillingsgesetz" and the conversion decreed reduced currency in circulation (paper) from approximately 7.7 billion Reichsmarks and 1 billion Military schillings to 3.3 billion schillings and the aggregate circulation (banknotes plus contingent liabilities of the National Bank) to about 7 billion schillings. Parallel with this--the first control of all deposits having been effected by the previously mentioned "Schaltergesetz"--occurred a further appropriate blocking of deposited means to restrict purchasing power and inflationary price rises.

652 453 Beginning March 7, 1946, the issuance of bank notes was subjected to Austrian control, the legal basis ensued through an amendment of the "Notenbanküberleitungsgesetz," June 30, 1946, which also promulgated the statutes of the Austrian National Bank as a bank of issue. With the enactment of June 25, 1946, the Austrian National

With the enactment of June 25, 1946, the Austrian National
Bank was authorized to control foreign exchange trans- 652
actions. For the time being the rate of exchange had 453
been fixed at the rate decreed by the occupation
powers: 1 dollar = 10 schillings and 1 pound = 40 457
schillings.

A gratifying step towards free foreign exchange relations was the release of blocked Austrian assets in the USA in 1946, and later on, the return of the gold reserve of the Austrian National Bank which had been transferred by the German administration. As a first step the United States had returned to the Austrian Federal Government 4,450 kg gold, representing a part of the gold reserve, which in 1938 amounted to 78,000 kg. On November 4, 1947, the Austrian envoy to London signed a protocol. According to its terms Austria was awarded an additional 26,187 kg fine gold by the Reparation Commission in Brussels. 457

With this substantial gold reserve on hand the Austrian Federal Government progressed a step further with its currency policy and enacted the Währungsschutzgesetz (a measure to protect currency), reducing the aggregate currency circulation almost 40 percent. For the intended reform, aimed at reducing currency in circulation as well as funds deposited with bank and credit institutions, the cited federal law of November 19, 1947 (confirmed by the Allied Commission for Austria on December 4, 1947, and enforced on December 10, 1947), was important in the following three points: 652

(a) Through a reduction of the aggregate currency volume (money in circulation plus deposited funds) a corresponding reduction of prices, and, last but not least, a restriction of black market trades could be accomplished;
(b) The general business moral could be improved; and,
(c) Through a cancellation of the old blocked accounts (in accordance with the first laws covering currency policies in 1945) an elimination of economically untenable positions, and therewith, the first step towards a reconstruction of the credit system in the interest of the entire economy could be undertaken.

With the enforcement of this law a new trend 458
in financial matters developed. The inflationary influ- 652
ences prevailing until then were curtailed while, financially, the prerequisites necessary for the reconstruction of the Austrian economy were set up. Although the circulating means did not become scarce to the extent

458 652 originally anticipated, due to the prolonged interval between the publication and the enforcement of the law, the following months nevertheless did produce some economic results (lowering of prices, elimination of black markets and a general slackening of the purchasing psychosis).

727 648 457 In the meantime the occupation powers, particularly the American and the British elements, had introduced relief measures ameliorating need and want among the Austrian population. One of the first was initiated by UNRRA, whereby, in connection with a number of special credits, a "subsistence level" was achieved. Additional assistance measures followed. On June 26, 1947, an agreement between the United States and Austria provided a new form of assistance, substituting for the UNRRA aid which was ending. For this Austria Assistance" about 85 million dollars were provided. With these contributions of foodstuffs, commodities and machines, it was possible to start the reconstruction of the ruined communication system and to restore a modest production line.

Additional alleviation was obtained from a credit granted by the British Government for purchase of consumer goods. In October 1947, the Export Import Bank at Washington, D. C., granted Austria a credit amounting to 13 million dollars, of which amount 8 million dollars were placed at the disposal of the heavy and metal industry, 4 million dollars at the disposal of the chemical industry for purchases of raw materials and as equipment, while the remaining 1 million dollars served other purposes (freights, etc.).

652 727 Of particular importance was the establishment of a regular budget. The first federal estimates (1946-1947) were, in view of conditions, only of an emergency nature.

The item of occupation costs was from the start a rather burdensome one. Until May 1946 these costs were covered by an additional issuance of bank notes. Beginning June 1946, all expenditures not covered by current incomes (including occupation costs as well as costs arising in connection with the welfare of displaced persons) were paid for with short-term treasury bonds, taken by banks, or with cash reserves. Later (July 1948) the expenditures of the occupation costs were [651] met fiscally by an additional tax (occupation cost tax) to the income and wage tax.

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regulations as privately owned enterprises.

If companies or enterprises, under the regulations of the corporation law, were for any reason not as yet able to install the required responsible executive managements (executive officers, board, stockholder meetings) the competent authority, in accordance with the terms of the federal law of July 26, 1946, installed public administrators. The privilege, however, does not apply to enterprises and plants working under their legally installed executive managements; such an existing status permits the government to introduce motions, by its delegated board members, only within the scope of legal corporate requirements.

[647] According to the federal constitutional law of June 16, 1948 (Rechnungshofgesetz), all nationalized enterprises are subjected to the accounting and business policy control of the Oberster Rechnungshof (superior accounting office of the government), which in turn is responsible to the parliament for rendering account.

By these means parliament wanted to prevent red tape in the commercially managed establishments.

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c) The reconstruction of the Austrian credit institutions.

Following the loss of Austrian sovereignty in 1938, changes within the great Austrian banking organizations occurred. The Austrian National Bank disappeared as bank of issue, its Vienna organization became a branch office of the German Reichsbank, the substantial gold and foreign exchange holdings as well as other assets were transfered to the latter, so that from 1938 to April 1945 no independent money and currency policy was possible.

Likewise, the nationalized banking institutions were confronted with structural changes which, after 1945, brought about problems of balance adjustments. Therefore, if the entire question complex and the enforcement of relative measures are to be ascertained, it is necessary to become acquainted with the developments which have occurred. Austria, having been reestablished as a sovereign nation at the end of the war, faced a greatly changed situation in comparison with 1937. The prior assimilation into the economically and organically different economy of the German Reich, caused a far

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reaching reorganization of the Austrian economic structure. What was needed after the political and economic disintegration of 1945 was, therefore, a basic recreation of the entire economic system, including (for reasons of monetary policy) the liquidation of the previously war-influenced German financial policy. In addition, it must be noted that in Southeastern Europe, previously representing a traditional Austrian interest and marketing sphere, political changes had occurred, making necessary write-offs of participations and accounts and a reorientation of previous relations. By having been made a part of the German Reich there occurred within Austria, because of the German methods in financing war expenditures, a substantial discrepancy between the amounts of money and goods available. On the asset side of the ledgers of the credit institutions special consideration was required for the so-called "Reichswerte" (bonds of the German Reich, treasury notes, treasury certificates), liabilities of the German Reich, its states and countries as well as of central and monetary clearing offices, the holdings of which increased rapidly during the first war years. They represented, as far as bonds, treasury notes and treasury certificates were concerned, mostly counterparts of deposits which had to be transferred to Berlin for conversion into such securities. That was done on instruction of German authorities in order to finance German war expenditures. At the cessation of the conflict these deposits, from a national-economic point of view, could no longer be considered covered, inasmuch as their counterparts became valueless or at best dubious as collateral. For reasons of the occupation zone division, at that time strictly applied, the "Schaltergesetz" was enforced only within the Russian zone, Vienna included.

From a monetary point of view the war's heritage consisted of an oversized volume of money and, for the time being, of losses to owners of securities of the German Reich, i.e., the banks and industrial enterprises.

The first legal enforcements (the "Schaltergesetz" of July 5, 1945, as well as the "Schillinggesetz" of November 30, 1945) were primarily construed to reestablish orderly monetary conditions, i.e., the setting of an ultimate money volume, the establishment of a new currency and the elimination of excess purchasing power.

652 453 The "Schaltergesetz" decreed the reopening of the banks, closed since April 1945, and, for the time being, a blocking of 60 percent of old deposits (i.e., funds deposited prior to the reopening of banks). The remaining 40 percent could be used, within restricted limits, for vital economic purposes. The "Schillinggesetz" went a step further. Extending the variously applied monetary measures, enforced within the Russian zone, to Austria as a whole, it established the basis for the Austrian (schilling) currency under the sole control of the Austrian National Bank and blocked 60 percent of all deposits accumulated prior to December 22, 1945. This was a monetary measure to [458] effect a diminution of the upwards trend of prices through a curtailment of money in circulation. The remaining 40 percent were disposable, partly free, partly non-negotiable andpartly restricted to certain uses. Funds deposited after December 22, 1945, were free of any restrictions.

The third and most important step towards a currency consolidation occurred with the enforcement of the "Währungsschutzgesetz," which had to accomplish a two-fold task. One was the diminution of currency in circulation (notes in circulation plus free contingent liabilities) amounting to 9 billion schillings prior to the enforcement, by a skimming-off process of notes in circulation and by a cancellation (diminution of deposited currency) of blocked funds, accumulated with banks as a result of prior enactments. The other task was to prepare a settlement of the unbalanced statements of banking institutions, reflecting the war and postwar losses. Thus the prerequisites for a reorganization of the entire credit apparatus were created.

Particulars about the technical procedure of the curtailment of the currency circulation, in accordance with the "Währungsschutzgesetz," will not be discussed here. With regard to deposited funds, all blocked accounts established in accordance with the "Schaltergesetz" and the "Schillinggesetz" of 1945 were cancelled. The remaining, restricted disposable 40 percent balances, were converted into demands against the federal treasury. [To cover the demand against the federal treasury, following the skimming of accounts, the federal ministry of finance was empowered to issue "Bundesschuldverschreibungen" (treasury bonds) or to enter these demands into a newly created "Bundesschuldbuch" (record of federal obligations).] The various categories of accounts were simplified and the skimmed amounts transferred to new accounts which, excepting temporary limitations, were free of restrictions.

The diminution of deposited funds (skimmed-off and therefore economically non-covered deposits) as well as of the contingent liability account of the Austrian National Bank (details are not being mentioned) took effect immediately. The banking institutions were required by law to proceed at once with the skimming off of the accounts involved and to transfer the skimmed-off amounts to a special account of the Federal Treasury. In this connection there occurred a shift within the liability items of the bank balances, whereas the actual balance sheet settlement was to be effected after enforcement of the authorization, empowering the federal government (paragraph 22 of the "Währungsschutzgesetz") to stipulate the time, the manner and the amounts to be written off and credited to the Federal Treasury. The enforcement of this authorization has been promulgated with the approval of a draft submitted by the Federal Minister of Finance, covering the third and final regulation with regard to the delivery of values as per paragraph 22 of the "Währungsschutzgesetz" of November 19, 1947.

In accordance with the terms of this regulation the banking institutions are required to deliver such assets of the Federal Treasury to the Ministry of Finance, whereby, to relieve their balance sheets, they are permitted to deliver instead of money the aforementioned "Reichswerte" at their book or par value. The demands against central clearing institutions are of importance to savings banks and cooperative credit associations.

The enforcement of this regulation did not solve the reconstruction problem even if, for the time being, a welcome settlement of balance sheets was achieved. The complex of remaining problems required a great deal of further deliberations. The range of the compensation as well as the details of the technical execution are not being explored here.

As stated before, the scope of reconstruction requires that additional considerations be taken into account. They are sketchily indicated below.

While the first reconstruction phase, in compliance with the "Währungsschutzgesetz," brought about the definite elimination of blocked accounts transferred

652 to the Federal Treasury and written off against an
453 offset of securities of the German Reich, the second phase will comprise the elimination of the remaining odd lots of such German securities. In addition, it will be necessary to establish the sources of loss in connection with the war. This includes losses incurred mainly through sequestration of cash on hand as booty, securities and participations devalued to nil (excepting German securities) and, finally, through general losses incurred in accounts receivable. (Losses incurred in connection with credit lines guaranteed by the Reich assume a special significance.) All of these represent values which at several institutions comprise a special block of "domestic and foreign assets" to be settled within the scope of pending reconstruction endeavors.

[451] It remains understood, and this has been pointed out by the Federal Minister of Finance, that the settlement of the whole complex requires the establishment of true reconstruction balance sheets, a prerequisite to be accomplished only after enforcement of a law decreeing the execution of "Schillingseröffnungsbilanzen" (initial balance sheets in schillings). As a result of the yet unsolved problem of the so-called "German Property," the computation of final figures will certainly meet with difficulties, especially with respect to the large banking corporations. This follows because (1) a clear definition of the term "German Property" has not as yet been established; (2) it is impossible to compute the participation values of the enterprises concerned without knowledge of the exact computation date in the absence of a state-treaty; (3) in some cases the prerequisites as to the corporate status, especially with regard to enterprises administered partly by Austrians and partly by an occupation power, still need clarification.

Noteworthy, furthermore, is the varied handling of "German Property" within the various occupation zones. Besides the contemplated settlement of balances within the scope of the first phase, the compensation of the remaining "odd-lots of German securities" and the general settlement (since the enforcement of the "Schillingsgesetz") of blocked but not written-off deposits, only relative estimates will be obtained which ultimately, after the elimination of evaluation difficulties, will find a correction.

Although a settlement method covering the "odd-lots" of German securities and subsequently the

block of "domestic and foreign assets" has not been 652
designed as yet, some means to assure the functioning 453
of the various credit institutions undoubtedly will be forthcoming.

The banking institutions, besides effecting a settlement of their balance sheets, will also be required to establish additional provisions in order to complete their economic as well as social-political tasks. In this connection the creation of a sufficient liquidity, the securing of an adequate capital structure and, last but not least, provisions for a corresponding amount of reserves to meet pension obligations towards their employees are more important. All these problems require generally and individually special solutions if the institutions are to accomplish their tasks satisfactorily within the national economy.

Thus, for example, with respect to inter- 457
national economic relations, the banking situation requires a settlement of balance sheets according to inter- 453
national procedures so that the liquidity of the banks 652
and the coverage of accepted deposits be self-secured, inasmuch as the banks could be called upon to correct market fluctuations so as to assure continuity of work within the economic sphere. However, such a policy will only prove successful if they have disposal over sufficient means. Furthermore, with Marshall Plan assistance terminating in 1952, questions concerning capital and credit correlations will form the main aspect of European and international collaboration. Still greater tasks will develop internationally and foreign trade acceptance credits will find an ever increasing use.
Such a development requires that the banks, more so than [454]
other enterprises, have available corresponding capital to serve as a basis for credit extensions. In comparison with other business enterprises, which have invested their means in commodities or other goods, the banks, as a result of war and postwar occurrences, sustained larger capital losses. Thereupon shifts occurred which created a situation in which the relationship between means and deposits were no longer in conformity to internationally set standards (generally amounting to at least 10 - 15 percent of the balance sheet total). The procurement of these necessary means will be of great importance. Since prevailing conditions in the capital market do not permit the procurement of capital in the customary manner, the capital needed will have to be accumulated out of profits of the banking institutions, provided certain tax exemption measures are enacted.

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453 Closely connected with the procurement of capital is the problem of liquidity upon which, internationally, the repute of a banking organization rests. Therefore, considerations about reconstruction measures will have to include the problems covering the organic cohesion of public and private credit extensions and also currency essentials.

The problematical scope of the entire reorganization of Austrian credit institutions is an extended one containing, besides questions of the budget and currency problem, the problem of capital procurement. In addition to the tax-exempting provisions, it will be necessary to effect certain changes in corporation law. The credit institutions, especially the banks, progressively liquidating relics of a past era, will eventually reestablish their previous traditional business relations with the world's financial centers in the interest of Austrian economy and by doing so, as agents for a progressive productivity, provide the necessary means. The purpose of the entire reconstruction, last but not least, strives towards an increase of the national income.

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B. Marshall Plan Assistance as the Material Basis of the Austrian Economic Policy.

1. The Legal Foundations of Marshall Plan Assistance.

a) Austria's position prior to Marshall Plan aid.

[433] The first two years following the establishment of the Second Austrian Republic permitted arranging a basis for the progressive development of the economy. However, the country's position remained precarious due to insufficient agricultural and industrial output. Domestic agriculture at that time provided only 36 per cent of the "subsistence level" needed to feed the population not engaged in agriculture. Industry, which prior to the war achieved export excesses, was unable to finance its raw material requirements. This caused a need for imports, primarily of food and mineral fuels, which caused a deficit in the payment balance amounting to 2 billion schillings.

However, this deficit was entirely covered by relief shipments and credits. Below is a breakdown of the most important deliveries and credits received during 1947:

648 457 the USA included: 45,000 tons of grain, 3,000 tons of edible fats, 5,000 tons of sugar, and 200,000 tons of other essentials. To cover the period up to July 1, 1948, Austria received an additional amount of $70,000,000 in interim aid.

b) The inception of the Marshall Plan and its terms.

The second Paris Conference of the European nations participating in the reconstruction program (ERP) took place on March 15 and 16, 1948, while a third conference followed on April 16, 1948. At the latter the organization for cooperation was initiated and implemented by the signing of a covenant and additional protocols. The aim of these agreements was the achievement of a sound, stable and independent economy by 1952. Article IV of the Paris covenant for cooperation on April 16, 1948, also contains provisions for mutual endeavors to create principles of payment which were to lead to a free (multilateral) clearing system. These endeavors led to the signing of a limited compensation and payment agreement (October 16, 1948) effective October 1, 1948 to June 30, 1948. It was later extended to June 30, 1950.

The ERP program for the 16 nations which signed the Paris covenant of April 16, 1948 (plus the German Tri-Zone represented by the military commanders and the Free Territory of Trieste), began on July 1, 1948, in accordance with the stipulations of the "Foreign Aid Act of 1948" adopted on April 3, 1948 (Public Law 472, 80th Congress, 2nd session, chapter 169, p. 2002). The assistance itself depended upon bilateral economic agreements between the USA and the participating countries (for Austria by the agreement of July 2, 1948).

[652] With the signing of this covenant the Austrian government (like all participating countries) obligated itself to increase, within the scope of Austria's possibilities, her industrial and agricultural production and to submit proposals relative to the implementation of projects to be executed under the provided assistance program. The government was further required to enact measures stabilizing the currency and balancing the budget and to cooperate with the participating countries in achieving an elimination of barriers to interstate trade.

457 439 These means were expended as follows: after deductions for foodstuffs (direct aid: $68,000,000, drawing rights: $2,710,000), for agriculture ($14,390,000, drawing rights $7,300,000) and for tobacco (direct aid: $2,500,000), there remained for the industrial economy funds amounting to $66,260,000 out of the direct aid and $75,190,000 out of the indirect aid (total of $141,450,000).

457 648 Of this remaining total of $141,450,000, $82,300,000 covered coal imports, of which $43,400,000 (or more than 50 per cent) were financed under drawing rights; $2,250,000 were taken from direct aid for a corner transaction to get coal from Poland. Imports of hides amounted to $11,300,000 ($4,000,000 were financed by direct aid allotments and $1,400,000 under drawing rights). Of these imports almost 50 per cent were financed with ERP funds.

For imports of raw materials and semi-finished goods (excluding coal), approximately $182,000,000 were set aside in the payment balance 1949-1950. ERP grants amounting to $55,000,000 covered 30 per cent of these imports. Including imports of coal, the percentage amounted to 38 per cent.

Of great importance were the imports in the investment sector. During the first year of the Marshall Plan only $12,000,000 (or less than 4 per cent of the allotted amount of $283,600,000) was provided for investment purposes. (During this period the need for foodstuffs was still great and represented 44 per cent of the total allotment.) The second Marshall Plan year, however, brought about an increase to more than 16 per cent, i.e., to $40,450,000 (direct aid: $31,600,000; drawing rights: $8,850,000) despite a reduction of 11 per cent in the total allotment ($252,200,000).

2. The Financing of the Reconstruction.

a) Counterparts and their use.

648 652 457 According to Article IV of the bilateral agreement between the United States and Austria of July 2, 1948, covering economic cooperation, schilling proceeds derived from domestic sale of imported Marshall Plan goods must be deposited with the Austrian National Bank in a special account (in favor of the Federal Ministry of Finance). The government has utilization of these funds only with the approval of the ECA in Washington. In accordance with the Foreign Aid Act, No. 472 of the

80th Congress, such counterpart funds, however, can be released only for purposes of currency stabilizations or promotion of investments.

The development of the special counterpart accounts, as a result of payments for ERP shipments, up to December 31, 1950, is tabulated as follows. [Not to be confused with special accounts established prior to the Marshall Plan assistance (Congressional Aid, British credit, etc.) which are classified as non-ECA accounts.]

	Million Schillings
I. To special account as per ECA instructions (counterpart value of ECA shipments).	8,140.8
II. Processing results (proceeds account of the Federal Ministry of Finance deposited with the Austrian National Bank).	
a) Proceeds of sales	6,035.1
b) Price-gap and time-lag, covered by treasury bonds of the government	2,105.7
Total of II	8,140.8
III. Charged to proceeds account (II)	
a) Released for monetary purposes	775.0
b) Released for the financing of the Austrian investment program	3,536.5
c) Other releases	49.9
d) 5 per cent reserved for U. S.	368.2
Total of III	4,729.6
IV. Balance of the proceeds account (I minus III--including price-gap and time-lag).	3,411.2

Not included in these figures are the U. S. assistance actions for the period July 1, 1947-December 31, 1947 as follows:

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		Million Schillings
I. **Proceeds of sales**		449.1
II. **Charged to special account:**		
a) Released for monetary purposes	75.0	
b) Released for the financing of the Austrian investment program	363.1	
c) Other releases	3.6	441.7
III. **Balance of the special account (ECA account)**		7.4

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In carrying out the program the Austrian Federal Government, upon request of the ECA Mission, is required to deposit to a special account (Post I) the counter value of ECA dollar expenditures at the prevailing rate of exchange. This deposit is made by the Austrian National Bank for the account of the Austrian Federal Government. The Austrian National Bank, which credits the deposit to a special account of the Federal Ministry of Finance (Post II), later receives reimbursement upon receipt of sales proceeds. However, since some of the imported commodities are sold at cheaper price levels than prevailing domestic market prices the amounts thus deposited to the proceeds account (Post II) are insufficient to reimburse the Austrian National Bank for its advance to the Austrian Federal Government (Post I). Furthermore, since the imports and the sales of procured commodities never occur simultaneously (time-lag), the deposited sales-proceeds usually amount to less than the counter values. The difference (Post II b) between the original Government deposits (Post I) and the sales proceeds (Post II) therefore represents partly a subsidy (price gap or ERP subsidy) and partly an advance (time-lag deposits) against later proceeds deposits. Although the advances are being repaid currently and no advanced amounts will be outstanding shortly after termination of the ERP, this will not be the case with regard to price-gap amounts. The latter represent Government subsidies advanced by the Austrian National Bank (covered by Federal Bonds). The financing of the Austrian National Bank cannot result in inflationary tendencies since the amounts, blocked in the counterpart account, are not considered in release provisions. Therefore, not being released, they do not return to circulation. At the termination of ERP it will become necessary to stipulate provisions covering the remaining government deposits of the special account (Post I). 652 457

The following periodic schedule shows the amounts released and the purpose of expenditure: 652 454

1948: Total releases amounted to 2.088 million schillings of which 396.7 million were released from ECA counterpart accounts. They were released to cover expenditures for investments of the extraordinary budget, industrial investments and housing constructions.

1949: Total releases amounted to 1.575 million schillings of which 1.425 million schillings were released from ECA counterpart accounts. They were expended to cover investments within the scope of the extraordinary budget and industrial investments.

1950: During the four quarters of 1950 releases amounted to 2,881.5 million schillings. The following amounts were released from ECA counterpart accounts:

	Million Schillings
1st Quarter 1950	none
2nd " "	[illegible]51.5
3rd " "	1,230.0
4th " "	700.0
Total	2,881.5

This amount of 2,881.5 million schillings was expended as follows:

	Million Schillings
Federal investment program (extraordinary budget)	377.0
Industrial investments	1,681.0
Special reconstruction program	660.0
Others	97.5
Not yet specified	66.0
Total	2,881.5

Tabulated according to expenditures, the amounts withdrawn during 1950 from ECA counterpart accounts were expended as follows.

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	Millions of Schillings	
I, Federal Investment Program (extraordinary budget)		365.
Railroads	210.	
Post	60.	
Roads and bridges	60.	
Public Buildings	17.	
Federal theaters	18.	
II, Industrial Investments		1,231.048
Hydro-electric power	443.	
Coal mines	50.	
Other mines	2.	
Iron and steel production	264.7	
Metal industry	40.	
Electrical industry	13.	
Chemical industry	50.	
Iron and metal works	65.023	
Glass industry	14.12	
Textile mills	90.2	
Woodworking industry	33.03	
Paper mills	149.99	
Foodstuff industry	.25	
Construction industry	.435	
Extractive industry	4.2	
Leather and shoe industry	4.6	
Various other industries	1.5	
Crafts	5.	
[654] **III, Special Reconstruction Program (funds)**		524.3
Agriculture	225.	
Forestry	56.	
Tourism	109.3	
Construction of workers apartments	34.	
General housing construction	100.	
IV, Others		40.75
Measures to step-up productivity	6.	
Export promotion (Chicago Fair)	1.25	
Exportfund Company	25.	
Technical Assistance	1.5	
Sawmill-school Kuchl	2.	

652 454 Of the total amount of 2,161.098 million schillings, 2,143.098 schillings were released from ECA counterpart accounts and 18 million schillings (for Federal theaters) from non-ECA accounts.

[451] It should be explained that during the last part of 1950 a change in the accounting procedure of releases occurred. While previously the actual debit of the account immediately followed the publication of the release, this was no longer the case during the second half of 1950. The charging of the account and the payment of amounts now occurs in installments, partly for reasons of administration and partly for reasons of currency policies. Thus, for example, at the end of the first half of 1950, 100 million schillings were released for the construction of buildings. However, payments were effected only during the third (75 million schillings) and fourth (25 million schillings) quarters. Of the amount of 1.2 billion schillings released during the first few days of September 1950 only 88 million schillings had been charged at the end of the third quarter. Of the funds released in September some were not charged to the account even at the end of the year. The December release amounting to 700 million schillings (published before Christmas) was still on account at the end of 1950. Therefore the published releases are limited releases needing special "Release Letters" to receive payment.

b) Money and capital market.

454 [652] [455] The essential part which counterpart funds (Marshall Plan aid) play in financing reconstruction and replenishment needs becomes especially obvious if the Austrian capital market conditions, which is slowly gaining momentum after capital losses sustained during the last decade, are duly taken into account. The 1950 annual report of the Vienna Stock Exchange indicates that the expectations held at the opening of the exchange in 1948 were only partly achieved at the end of 1950. The turnover in 1950 amounted only to slightly over 654.5 million schillings (at traded prices) of which 191.3 million schillings represented trading in government bonds, 282.2 million schillings in various other bond issues and not quite 179 million schillings in shares. Thus the market in stocks (the following detail reflects the necessity of interim financing of industrial monetary needs) developed a bearish trend although most of the corporations resumed dividend payments (depreciations averaging 25 per cent). Under pressure especially were the shares of "nationalized"

454 434 With the gradual diminution of the ERP aid, the raising of new capital gains significance. It is a question made particularly difficult inasmuch as prices rose on the world markets during the last half year and the decline in the purchasing power of the schilling caused by the lag in wages. (Running parallel is the sharp decline of the value of savings deposits.) A number of other factors retard the creation of savings capital: the lowered real wages, the long pent-up consumer demand of the broad masses, the lack of investment-seeking capital from insurance institutions which, as holders of collective saving, normally placed substantial amounts at the disposal of the capital market, the use of retained profits for self-financing of investments and, last but not least, the stress of fiscal necessities.

Naturally, Austria shares these developments with other European nations. Even France, the country of savers, according to latest reports has experienced a decline in savings to 4.3 per cent of the national income.

458 [652] Despite progressive credit extension (which is, qualitatively as well as quantitatively, being held under control by measures adopted during the first quarter of 1951), in contrast to other economically stronger nations, there seems to be no dangerous monetary development even though the political situation in the world in the fall of 1950 caused an increase in the volume of money and payments.

Development of the Currency Circulation at the End of 1950 (in millions of schillings)

[Calculation of the currency circulation in accordance with American standards: money in circulation plus contingent liabilities of the Austrian National Bank plus checking account deposits with banks, minus inter-banking and savings deposits.]

	Money in Circulation	Contingent Liabilities excl. Inter-Bank Deposits with the National Bank	Checking Deposits with Banks	Total of Currency Circulation
End of December 1949	5,721.0	1,221.6	5,987.5	12,930.1
End of September 1950	5,862.9	1,283.8	6,949.3	14,096.0
Increase during the first three quarters 1950	+ 141.9	+ 62.2	+ 961.8	+ 1,165.9
End of September 1950	5,862.9	1,283.8	6,949.3	14,096.0
End of December 1950	6,348.8	987.7	7,271.1	14,607.6
Increase or decrease during last quarter 1950	+ 485.9	- 296.1	+ 321.8	+ 511.6

During 1950, currency in circulation increased 1,677.5 million schillings (from 12,930.1 to 14,607.6); 627.8 million schillings of this amount represented an increase of circulating money (37.4 per cent) while the so-called "Release Program" originally estimated an increase of only 300 million schillings. This overdraft had its cause in lower receipts of ERP accounts as shown by the following figures.

In 1950 about 2,884 million schillings were received in ERP counterpart accounts. The disposals (releases of 95 per cent plus 5 per cent ECA administration costs) amounted to 2,330 million schillings so that the actual increase in ERP accounts

652 [436] totaled only 454 million schillings. In accordance with the original 'Release Program" it should have amounted to 800 million schillings to neutralize other money-increasing factors. The minus-difference is based on the fact that the anticipated decrease of the price-gap subsidies was delayed, as a consequence of changes in world markets, in order to avoid too sudden changes in the price and wage structures.

[457] To summarize: in spite of and mindful of the world-wide economic fluctuations affecting her economy, Austria is carrying out reconstruction within the scope provided by ERP facilities. Aside from scheduled reductions any decrease in the real value of this assistance makes the accomplishment of her programs more difficult (especially the balancing of her balance of payments).

c) Prices and wages, elimination of subsidies, adjustment of exchange rates, increase of economic productivity.

652 [648] 185 With the progressing consolidation, resulting from ERP procedures, the Austrian Federal Government faced a number of problems. Aside from the aspect of the stipulated gradual decrease of foreign aid, these problems gained importance when Austria signed the European Payment Union (EPU) agreement in September 1950. She had entered upon obligations which could be met only if her economic policy was directed towards certain external economic goals (expansion of direct and indirect exports). This required certain measures aimed internally (balancing of prices and wages) as well as externally (adjustment of exchange rates).

The measures to be adopted within the framework of economic relationships had the following points in view.

1) Counteract inflationary tendencies according to timely needs;

2) Decrease step by step the system of subsidies for essential commodities, like edibles, coal and agricultural products, in order to achieve, besides a budgetary relief, "genuine" prices;

3) Bring prices gradually in line with world market levels;

4) Establish an equilibrium between prices and wages, in order to guarantee, in relation to prevailing prices of manufactured goods, an equitable

wage level. This goal will be achieved: 652 185

a) by means of an appropriate currency policy, primarily through a gradual unification of the exchange rate system (surrender of multiple exchange rates and adaptation of the schilling rate to the international purchasing power parity);
b) restriction of compensation trades;
c) adjustment of the price structure and adaptation of wages according to agreements of political and economical interest;
d) increase of labor productivity (i.e., the produced quantity of goods per capita or working hour) to achieve a suitable relation between the costs of raw materials, accessories, plants, machineries and manpower, and the proceeds of goods and services.

Following the development of domestic price and wage dynamics the exchange rate of 10 schillings to 1 United States dollar, established by the Allies at the end of the war, became untenable in the early part of 1948. Despite the exceptional exchange rate to gain a larger share of export trade, compensation deals, made mostly at higher rates of exchange, were tolerated. Later, exporters were permitted to sell part of their foreign exchange holdings, which they were allowed for imports of raw materials, at an officially fixed premium. A private super premium was usually added, depending on import productiveness. 457 652

This resulted in a complicated system of exchange rates which varied from deal to deal. In addition, goods imported under ERP terms, insofar as they were not reckoned at domestic price levels, were sold at officially fixed prices. Thus the difference in the exchange relation between commercially imported goods and ERP imported goods became an import subsidy financed with ERP means, favoring partly the consumer and partly the dealer or the processing manufacturer. It delayed the shifting of needed imports to commercial channels and furnished in certain sectors the impression of an export ability which however, was solely the result of the cheaper purchase price commodities imported through the ERP.

It was clear that this system of differentiating exchange rates had to be replaced by a "uniform" rate of exchange. The international devaluation wave sweeping Europe during September 1949, however, 457 652 created a new situation. As a result of this devaluation process, the Federal Government, in November 1949, decreed a reorganization of the foreign exchange market. This was intended to be the first step towards the establishment of a uniform exchange rate system. The official rate of exchange, henceforth called the basic rate, was increased from 10 to 14.40 schillings per 1 U. S. dollar (in accordance with the devaluation of the English Pound Sterling). At the same time a variable premium rate of exchange, presently fixed at 26 schillings to 1 U. S. dollar, was established. Exporters were required to give up 40 per cent of their foreign exchange proceeds at the basic rate. The remainder they could retain for payment of their imports within a period of 60 days or could offer to the Austrian National Bank at the premium rate. Goods to be imported were classified into three groups. Those listed in schedule A were imported at the basic rate of exchange, those listed in schedule B at a mixed rate (21.36) and those appearing in schedule C at the premium rate. Goods imported within the scope of the ERP, commodities to be disposed at prevailing cheaper price levels, were grouped with the mixed rate. Service charges and capital transactions were dealt in at the premium rate.

457 435 465 652 There remained, however, a conspicuous discrepancy in the import exchange rates which introduced disturbances into the cost-price structure of the economy, and these in turn influenced living costs and wages.

[648] [654] Upon recommendation of the International Monetary Fund, a unification of the exchange rates had been considered at the time the multiple exchange rate system was promulgated, i.e., during November 1949. At the same time, and in order to ease budgetary strains, the system of subsidizing essential commodities like food, coal and agricultural necessities (which up to now had been sold at cheaper levels because of the ERP imports or imports financed under the basic rate of exchange) had to be substantially curtailed. Since any increase in the prices of grains and grain products was likely to impair living costs and wages, difficult situations arose. As a result of the changed price and wage relations, certain price and wage adjustments as well as a partial reduction of subsidies (covering sugar, coal and agricultural products) had already been promulgated in 1947, 1948 and 1949. After due consideration between political representatives and economic interests, a fourth price and wage agreement was enacted on September 27, 1950.

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Consequently, the Austrian Federal Government in collaboration with the Austrian National Bank decreed, effective October 5, 1950, a uniform rate of exchange for the traffic in goods (with the exception of some food items). This rate was identical to the mixed exchange rate of 21.36 schillings to 1 U. S. dollar. The basic rate of exchange was discontinued. For tourist traffic, traffic in capital and for certain kinds of services, the premium rate of exchange (26 schillings to 1 U. S. dollar) remained in force. Simultaneously, compensation deals in goods were prohibited, excepting a few to avoid losses of foreign trade interests.

In addition the Austrian National Bank effected, according to newly published bid-rates, a revaluation of its foreign exchange holdings and increased the price of gold to 22,834. schillings per 1 kg fine. Thus, the Nationalbank's holdings of foreign exchange were brought in line with the uniform rate of exchange in force for the traffic in goods while its gold holdings were revaluated as mentioned before. (The revaluation of the gold and foreign exchange holdings brought about a surplus value. Since, in accordance with the Notenbanküberleitungsgesetz, the weekly statement of the Austrian Nationalbank has to contain only gold and foreign exchange holdings necessary as cover, the excess holdings thus derived have been eliminated together with other heretofore not published assets. Meanwhile, until a decision about their employment is found, these excess holdings are accounted transitorily.)

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A further development, this time upon an international platform, occurred with the signing of the agreement establishing the European Payments Union (EPU) on September 19, 1950, at Paris, within the scope of which Austria received from the ECA an amount of 80 million dollars to cover her trade deficit with other EPU member countries for the period July 1, 1950, to June 30, 1951.

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Although the preceding years had resulted in remarkable economic reconstruction, the Austrian authorities, nevertheless, were aware of the fact that a step-up of economic productivity was necessary to come as close as possible to the mark set by the ECA for 1952. In estimating Austria's endeavors one must take into account her heavy losses of national wealth, so that the effect of ERP assistance became visible only in 1950. This makes the balancing of her payments balance within the limits of the ERP program rather doubtful.

433 439 454 plant managements, can be achieved only through accumulation of an adequate yearly (savings) investment percentage (during 1950 investments in plants, structures, rolling-stock, equipment, etc., amounted to 20 per cent of Austria's national income, against 6 per cent in 1937; the 1950 investments were to a large extent the result of foreign assistance), as well as technical progress, rationalization of plant operations and adoption of modern psychological working principles.

[434] Only such a procedure assures a genuine increase of the real income. However, whether an increased production output is followed by a decrease of prices or by an increase of wages (raising the living standard) or whether necessity demands a combination of both is problematical.

433 On the basis of a favorable world-wide political scene it is hoped that Austria will realize her economic program as worked out with the help of international experts. Better technical equipment will lower the individual wage quota, thereby establishing a more favorable competitive basis. Thus, together with a transfer of skilled labor to production of export goods, the desired adjustment in the balance of payments will be achieved. In this connection the resettlement drive, initiated by the ERP, furnished a possibility to shift needed manpower to plants short of help. The higher real wages, resulting from an increased productivity, will then provide a basis for the accumulation of savings capital needed for additional investments. However, considering the special position Austria occupies, it will be necessary to grant her a breathing spell for achieving her economic aims.

d) Budgetary developments.

652 727 ● Within the scope of combined reorganization procedures, special attention is directed towards the balancing of the budget. Due to the large expenditures covering the reconstruction of public enterprises and administrative organizations damaged by the war and the increase in economic tasks of the government, e.g., occupation costs and the expenditures in connection with "Auslandsfürsorge" (welfare of the DP's, expellees, refugees), the consolidation of the budget (in spite of a rising national income) was only partly possible in 1949 and 1950 inasmuch as fluctuating demands exceeded narrow tax receipts.

● 652 While the regular budget of 1946 closed with a deficit of 736.8 million schillings as a result of high occupation costs, it achieved a surplus of 572 million schillings in 1947 due to larger tax-receipts. The balance in 1948 showed a deficit of 930 million schillings reflecting the burden of subsidies for food stuffs, while that of 1949 resulted in a surplus of 95 million schillings because of higher taxes and tariffs resulting from the third price and wage agreement. There was a positive development in the first half of the year 1950, resulting once more in a surplus of 705 million schillings up to August with a total revenue of 5.1 billion schillings. In the second half of 1950, however, the fourth price and wage agreement (end of September, 1950) burdened the overall situation by approximately one billion schillings.

The budget, including all expenditures for investments in the extraordinary budget, showed a deficit in all postwar years. This deficit was covered partly by the issuance of treasury bonds (up to the end of 1949 treasury bonds in the amount of 2.1 billion schillings were issued mainly to cover the occupation costs), partly out of the counterpart funds, and partly out of funds-on-hand. In addition to these a 5 per cent reconstruction loan (the first since the end of the war) was levied in 1949 which brought in cash receipts totaling 324.6 million schillings, out of which 136.1 million schillings were allotted for state subsidies. (In connection with the reconstruction loan of 1949 it was possible to cash in the 1938 State Loan bonds--which bore 4 1/2 per cent interest, second issue--in payment for new bonds, but only under the condition that no obligations should result for Austria out of loans which were raised by the German occupation forces.)

On the basis of currency considerations the expenditures of the extraordinary budget were separated into two parts: investments and extraordinary expenditures. In 1946 and 1947 a difference was made between these two categories so that "new" investments, such as electrification of the state railways or extension of the telephone network, were included under "investments." On the other hand, all reconstruction work, whether productive or unproductive (such as burdens of the transition period), was designated "extraordinary expenses." In budget estimates for 1948 and subsequent years a transition was proposed to prewar budgeting techniques (current ordinary budget plus the investment program); in this way the current budget distinguished between investments and extraordinary expenses, in accordance with whether they were classified productive or unproductive. The extraordinary budget centered, therefore, on the budget for investments. Since 1948 all remaining items (with the exception of reconstruction of war-damaged buildings and requirements of agriculture) were included in the current budget. 652

State expenditures have increased sharply since the end of the war through inescapable obligations (occupation costs and "Auslandsfürsorge") as well as through growth of investments. The much-critized overstaffing of the State administrative agencies, which was higher in 1949 by 23.6 per cent than in 1937, was caused by the increasing work of administration which could be reduced only gradually after economic consolidation. [727]

Non-personnel expenditures (Sachausgaben) kept pace with the expenditures for personnel since 1947; they have increased not only because of higher prices, but also have experienced a "real" increase. Among these expenditures, the so-called "social transfer payments"--pensions, unemployment insurance, rents, and child-welfare payments--have played a large role. The remarkably high amount in these categories may be explained by losses caused by the war. Approximately 169,700 disabled war veterans and about 340,700 dependents of war victims receive aid.

The costs of the State debt are comparatively low; no interest was paid up to 1947. Since 1948, however, the expenses for the state debt have increased more rapidly, reaching 309.7 million schillings in the budget of 1950, i.e., 5.1 per cent of current expenses as compared to 13.7 per cent in 1937. The German loans issued to finance the war were not recognized by the Austrian state; also, no interest has been paid for pre-war loans. Interests and amortizations are paid only on loans issued since the end of the war in Austria itself (bonds, reconstruction loan, state treasury bonds of 1947) and abroad (surplus credits, war asset credits, export-import bank credits).

The occupation costs, an item of heavy burden to the budget, were diminished due to the liberality of the USA in demanding no occupation costs since 1948 (paying for all their own expenses); the other occupation forces reduced the occupation expenses from 866.4 million schillings in 1946 to approximately 400 million schillings in 1950. But "Auslandsfürsorge" increased from 69.5 million schillings to 105 million 652 727

652 727 schillings in the same period. Of the occupation costs the Soviet occupation force absorbs more than half of the total amount. Up to the fall of 1950 Soviet Russia received from current Austrian production about 1,094 million dollars as occupation costs and confiscation of Austrian properties abroad. (Help from the Western powers, especially the USA, has amounted to about 986 million dollars since 1945.)

655 652 Of the profit-making state-owned enterprises, which produced a surplus before the war, now only those which actually constitute a state monopoly (salt, spirits) produce a surplus, while other state enterprises, the "Bundesbetriebe" (such as postal service and theaters) and the Federal Railways have a deficit. The deficits, however, are being decreased since 1946 by means of higher tariffs, dismissal of personnel and progressive rationalization (investments), from 17.7 per cent of expenditures in 1946 to 6.5 per cent in the budget estimate of 1950.

651 [652] Out of the total revenue (based on the principle of net income) 80 to 85 per cent came from taxes levied since the end of the war. If one includes the income from various revenues similar to taxes (such as contributions to unemployment insurance, fees to child-welfare, etc.) the amount of taxes increases from 90 to 95 per cent, the remainder consisting of fees, interest and contributions from corporations and the income of the Postal Savings Bank (Postsparkasse).

The main support of the whole tax system since the end of the war is formed by direct taxes. Their part in the total tax income, in the years 1946-50, ranged between 44 per cent and 53 per cent as compared to 29 per cent in 1937; accordingly indirect taxes decreased in importance as compared to the prewar period. The income from the turnover-tax and from customs duties decreased from 42 per cent in 1937 to 24 per cent in 1950 as a consequence of structural changes in the system of taxation since 1938.

652 The Austrian treasury endeavors, in accordance with the bilateral agreement of July 2, 1948, to keep up the balance of the state budget and of the budgets of the federal countries (Länder) and municipalities, in spite of the enormous demands on public funds.

The main economic aim of the financial policy is to secure the highest possible employment and to continue the extension of all investments pertaining to economic productivity.

Preliminary Results of Transactions in 1950 as compared with the State Budget Estimate

Item	Preliminary Results of Transactions in 1950	State Budget Estimates for 1950	Difference
CURRENT TRANSACTIONS			
Expenditures			
State Administration	6,434a	5,849	- 585
Monopolies	321	210	- 111
State-owned enterprises	1,327	1,236	- 91
Federal Railways	2,525	2,322	- 203
Total Expenditures	10,607	9,617	- 990
From these:			
Wages and salaries	4,216	3,927	- 289
Discounts	2,791	2,632	- 159
Pensions	1,425	1,295	- 130
Non-salary expenditures	6,391a	5,690	- 701
Income			
State Administration	7,137b	6,096	+1,041c
Monopolies	517	354	+ 164d
State-owned enterprises	1,172	1,115	+ 57e
Federal Railways	2,252	2,052	+ 200
Total Income	11,078	9,617	+1,461
From public expenditures exclusive of occupation costs	5,284	4,517	+ 767
Occupation costs	472	420	+ 52
Other income	5,322	4,680	+ 642
CURRENT TRANSACTIONS SURPLUS INVESTMENTS	471	0	+ 471
Expenditures			
State Administration	942	304	- 638
Monopolies	7	7	
State enterprises	170	160	- 10
Federal Railways	507	607	+ 100
Total Expenditures	1,626	1,078	- 548
Income			
ERP-Special Funds	550	0	+ 550
Allotment for Federal investments	377	0	+ 377
Other income	18	0	+ 18
Total Incomes	945	0	+ 945
Investments: Deficit	681	1,078	+ 397
Deficit of the Budget	210	1,078	+ 868

a) Of which 383 million schillings occupation cost; 122 schillings for Ausländerfürsorge; 200 million schillings subsidies for foodstuffs.
b) Of which 472 million schillings occupation cost.
c) Of which 61 millions surplus income from unemployment insurance and 52 millions from occupation-costs contributions
d) Of which 126 millions from the State lotteries.
e) Of which surplus income of 41 millions from the Post and Telegraph Administration.

● 652 To this should be added that the surplus in expenditures for investments pertains exclusively to the extension of agriculture and forestry, tourist traffic facilities, the building of apartments for workers and the reconstruction of war-damaged dwellings. The expenditures for investment in institutions of state administration were lower by 2 million schillings than foreseen in the budget estimate for 1950. Of the 1,076 million schillings spent for the institutions of state administration only 377 million schillings were covered by ECA funds; the remaining 699 million schillings were covered by the surplus of current transactions (471 million schillings), other extraordinary revenues (80 million schillings) and from cash-on-hand. The consequence of this important diversion of state funds to cover investments, caused mainly by delays in alloting 70 million schillings from the ECA funds in the fourth quarter of 1950, was the creation of a long severe strain on the State's funds.

[654] The investments of 550 million schillings for the extension of agriculture and forestry and for tourist traffic, as well as for workers' dwellings and the reconstruction of war-damaged apartment houses, have been covered in full from ECA funds. For these investments there were only proposals in the 1950 estimated budget, but no credits had been provided since these investments were to be carried out only in accordance with allotments from ECA funds. The expenditures for these investments appear, therefore, as overdrawing on the estimated state budget for 1950.

e) Scope of the tasks of the Austrian banks in fulfilling the Marshall Plan. Financing of Marshall Plan deliveries.

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In the technical execution of the Marshall Plan the Austrian banks have a very important role. They are obliged, in the first place, to give advice on the financial feasibility of individual transactions before the applications of Austrian importers are presented for endorsement to the Federal Chancellory-ERP-Central Bureau, Vienna (Bundeskanzleramt-ERP-Zentralbüro, Wien). Moreover, they are in charge of opening letters of credit for single transactions which are covered by letters of commitment. They cash the schilling counterpart on the basis of documents which have been sent to and cleared by New York banks and notify the Federal Chancellory-ERP-Central Bureau on the carrying out of single transactions.

The stagnation of the capital market, which makes the financing of comprehensive investments on the open market difficult now, made special forms of interim-financing necessary for Marshall Plan deliveries. This task the banks and the Nationalbank undertook through their financing techniques. 652 454

Agreement has been reached by the former Ministry of Properties and Economic Planning, the Ministry of Finance, the Nationalbank and credit institutions for the financing in schillings of Marshall Plan deliveries. Inasmuch as outside means (credit) were required, the following categories of credit have been set up with regard to the different currency policies: 652 457 439 452 453

1) Credits for the import of raw materials (wool, cotton, hides, leather, metal, chemicals, etc.);
2) Credits for financing the cost of manufacturing (Umwandlungs kredite);
3) Credits to cover investment needs (Aufbaukredite).

For the first two categories the applicant for credit has to prove that all deliveries will take place within the scope of the Marshall Plan. To cover credits for raw materials provision is made for payments in goods with terms of three months, which may be extended three times to a maximum twelve months. (A special priority was provided originally for the delivery of textile raw materials of any kind and, furthermore, for hides, leather, furs and tannic acid, as long as the accounts were settled prior to June 30, 1949. This measure aimed to spare the buyers of goods losses in interest caused by delays in carrying out the Marshall Plan. As a concession a 60-day delay in payment of the amount in schillings was fixed so that in these special cases the validity of the credits was prolonged up to a maximum of 14 months.) The rate of interest for raw material credits has been fixed at 5 per cent net. The deliveries of semi-manufactures are treated in the same way if they are further processed by Austrian industrial plants. These letters of credit may be refinanced by the Nationalbank.

The covering of manufacturing costs (Warenumarbeitungs- und Umwandlungskredite) is provided for by ninety day drafts which may be extended twice, *i.e.*, a maximum of nine months, if the buyer of goods can prove that those larger deliveries of Marshall Plan goods to be manufactured by him cause a sharp increase in the production so that additional means of production are necessary. The rate of interest is 6.5 per cent net. These drafts may also be refinanced at the Nationalbank.

452 652 453 [454] The financing of credits for investments (Aufbaukredite) is likewise provided by different types of drafts (three-months validity) until such time as definite solutions (consolidation) will be possible in the form of obligations on the money market. The rate of interest is 4.5 per cent net. The examination of such credit applications lies with a commission consisting of representatives of the Federal Chancellory-ERP-Central Bureau, the Austrian Nationalbank, and representatives of those banks which grant the credits. Final approval rests with the "Kreditlenkungskommission," an advisory committee of the Federal Government and created by the federal law of July 3, 1945, to direct public and private credits. Members are nominated by the Federal Government.

453 The following banks are presently handling reconstruction credits: Creditanstalt-Bankverein, Vienna, Innsbruck; the Bank for Carinthia, Klagenfurt; the Bank for Upper Austria and Salzburg, Linz; the Oesterreichische Länderbank AG, the Hypotheken- und Creditinstitut, Vienna; the Bankhaus Schoeller and Co., Vienna; the Arbeiterbank AG, Vienna; the Genossenschaft-Zentralbank AG, Vienna; the Girozentrale der österreichischen Sparkassen, Vienna; the Gewerbe- und Handelsbank AG, Vienna.

439 457 652 With the activation of the multilateral balance within the frameworkof the European Payments Union after October 1, 1950, some changes took place in the financing of Marshall Plan imports. They, however, refer to the mobilization of the so-called "Initial Credit Position" which serve to cover the total deficit against all ERP countries. The carrying out of goods exchange on the basis of direct aid was not influenced by these changes.

To avoid difficulties in financing raw material imports from Marshall Plan countries, and in order not to restrict the potentialities of financing which the importers had been allowed up to this date, the Austrian Nationalbank decided, instead of refinancing goods imported out of the indirect aid (Drawing Rights), to discount ninety-day drafts of the banks. This forms the foundation of the means for financing goods imported from ERP countries. These drafts are issued by credit institutions and are drawn against the importer. The refinancing of these drafts takes place if the payee, in the opinion of the Austrian Nationalbank, possesses sufficient credit standing, and if the imports, as alread explained, come from ERP countries and comprise such goods as were, up to this date, to a considerable extent under indirect aid and were refinanced previously by the Nationalbank. There were special lists for all goods in question. 439 652 ● 457

The cashing of these drafts takes place under the same conditions which apply to imports of semi-manufactures out of ERP funds; the Nationalbank discounts the incoming drafts at the prevailing bank-rate (now 3 1/2 per cent); other banks have a rate 1 1/2 per cent higher.

The total amount which all credit institutions can present in such drafts does not exceed the amount of the refinancing granted for financing imports out of indirect funds.

3. The Structure of Production.

a) Principles of industrial investment.

In accordance with the principles of ECA, ERP funds are used only to finance investments which serve to balance payments in the shortest possible time, that is, investments which: 1) bring in foreign currencies (by starting new or extending existing production of export goods); 2) save foreign currencies (production of goods important to internal supply, which previously had to be imported from foreign countries, or by improving their competitive position); 3) cause an essential increase in the total economic productivity, i.e., a reduction of production costs and increasing the ability of the Austrian economy to compete with foreign countries. 652 454 457

When hostilities ceased in 1945, most of the industrial enterprises showed great impairment. This was due to: 1) extensive destruction during the actual fighting; 2) confiscation through which valuable equipment for production was removed after the end of the fighting, whereby functional coherence of production was disrupted; 3) changes in economic aims. Before 1945 (not considering the aims of wartime economy) a large number of enterprises were structurally organized on a broader economic territory; after the war, therefore, the industry of Austria had to return to the more specialized industrial capacities of the pre-1938 period; 4) an acute shortage of capital caused by amounts necessarily written off as war losses, funds lost as outstanding claims, etc. 433 727

727 311 In other fields too there were noticeable losses and a decline in real capital. One might observe in agriculture, for example, a deterioration of soil owing to the shortage of fertilizers and cultivation during the war years, a lack of seeds, fodder and agricultural machinery as well as declining yields in forestry due to overcutting of trees, obsolescence and lack of means of transportation from the forests to the mills. The robbing of coal mines, failure to introduce rationalization and the forcing of unrealistic work in other mines (metals) give us a full picture of a declining economy.

652 433 185 454 Reconstruction of a productive national economy could be successful only if the economic forces specifically characteristic of the country were activated and coordinated to secure an optimum of the whole economic productivity. This presupposes a knowledge of possibilities based on an inventory of the internal economy and lining up problems according to their importance (to avoid mistakes in investments or overextension). It also presupposes establishing a time schedule for the financial fulfillment of individual projects with a view to the existing shortage in capital. The reconstruction of primary production, as well as the most important industries, have been carried out according to special plans which were worked out by government authorities in cooperation with interested industrial circles. Planning covered, in particular, production of energy, coal mining, the iron and steel industry, and ore mining and the metal industry.

These plans are not limiting as to quantity or time but are a type of structural plans without time limitations, the realization of which is bound to certain financial or material possibilities. With the maximum supplying of internal requirements of energy, coal, iron, metals, etc., they intended to assure lower prices in the finishing industries. In this way a sufficiently high quota of exports should be obtained for a balance of payments. These plans form the theoretical basis for those investment programs which the Austrian government presents to the ECA in Washington and which are realized step by step with the help of the ERP funds.

Just as with other ERP participants it is Austria's primary aim in its investment policy to make the utmost use of all possibilities offered by the Marshall Plan up to 1952. In addition to the development of primary industry, the greatest effort is being made

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to bring the capital goods industry to the highest technical level. The direction of this policy is determined not only by the high demands for reconstruction within the country itself, but also by the rapid tempo of industrialization of European and non-European regions. If Austria is to be able to compete on the world market after the end of the ERP, it must not only close the gaps in its production but also provide for further undisrupted technical developments. It is clear that Austria has to divert annually from its national income a sufficiently high quota for investment (now about 21 per cent with the help of the ERP) in order to keep pace with other developments.

In view of the time limitations and the gradual reduction of Marshall Plan aid, it will be the principle of the investment policy from 1949-50 on to give primary consideration to those big investments (for example, in energy and iron-ore industries) whose development was pushed by high capital expenditures and to have them achieve an economically and technically sound condition, if possible, within the period of the duration of the ERP. Basically, the counterpart funds are used for those investments from which payments are expected on the shortest terms so that, along with big projects, numerous smaller and medium sized projects which increase exports get under way. In disposing of counterpart funds, however, those enterprises which demand ERP-financing are forced to cover part of their planned investment out of their own funds (profits, private credits and various deductions).

The main items of the investment policy for future years, excluding the arrangements of the so-called "Long-term Program," have been fixed by the Reconstruction Program 1950-52, which was presented to ECA in the summer of 1950 and amended in the late fall of 1950, owing to price alterations. Based on the 1949 price level, the investments for the three year program had been set originally at 24 billion schillings. This figure was revised to 27 billion schillings in accordance with the change in prices and wages which occurred in October 1950. It was the aim of the partly transferred investments to create such conditions as to obtain an increase of production of domestic raw materials, to save foreign currency and to set at the disposal of the domestic economy those raw materials which can be found to a suitable extent in the country itself. As part of this plan, for example, the construction of four more power plants will be started, the output of coal shall be increased to 6 million tons from the present 4 million

652 tons, the production of iron and steel to 1 million
185 tons annually, the output of rolling mills to ap-
433 proximately 750,000 tons. Further increases in pro-
454 duction will be provided in: bauxite mining, aluminum production, production of cellulose, paper and pulp. In the same manner the export capacity of nitrogen plants (Sticksstoffwerke in Linz), one of the most important producers of foreign currencies in the Austrian economy, will be increased by 50 per cent. In the chemical industry additional investments will make it possible to start production of sulfuric acid and phosphate fertilizer. The single projects will be discussed in detail in another connection.

b) The renovation and rationalization of the primary industries.

The Austrian government holds to the principle (insofar as none of the theoretical considerations in the preceding chapter interferes) that in building up its program of investments cheap primary products lower the production costs in the finishing industries and this allows them to compete in the sharp competitive battle with other highly industrialized
655 European countries. Certain focal points of investments have been formed, encompassing especially coal, iron and steel, ore mining, and the smelting industry as well as electrical power. These are mainly nationalized enterprises. For investment purposes in the years 1948 and 1949 they received a total sum of 1,627.4 million schillings out of public funds. Of this amount, 958.5 million schillings were reconstruction credits, 481.6 million schillings were capital payments of the Federal government, 31.2 million schillings were federal loans and 156.1 million schillings were credits guaranteed by the state. In 1950 a sum of 30 million schillings was provided in state capital contributions; in the same year (fall of 1950) the funds released from the ERP for the above-mentioned branches of industry totaled 133 million, 283 million and 418.5 million schillings used essentially as follows.

316 (1) Investments in coal-mining.

454 During the war the coal mines (predominantly brown coal in Austria) suffered greatly in their development because of overproduction and neglect of needed renovation as well as delay in planned expansion. Within the scope of the Marshall Plan the necessary renovation and rationalization of operation, mining improvements, shaping of daily operations, deep mining,

327 Judenburg, on the other hand.

While the annual production of raw steel amounted to 650,000 tons in prewar years, there must be an increase in this amount to 1 million tons annually by 1952 (that is, after the end of the Marshall Plan). This takes into consideration demands and the total demand of Europe for steel. Accordingly, the investments were balanced as follows:

(a) The increase of iron-ore production to approximately 2.2 million tons a year at the Erzberg (Styria), at the Radmer near Hieflau and at Hüttenberg (Carinthia). (This project is one of the biggest in the investment programs.)

(b) The renovation and modernization of steel works. To secure the full utilization of raw-steel production, gross rolling mills and tin plate works were established or renovated. To mention only some of the big projects: the renovation of the worn-out Block-Trio rolling mill at Donawitz (Alpine Montan-Gesellschaft) by a continual billet-rolling mill; the building of a cold-band rolling mill at Krieglach (Alpine Montan-Gesellschaft); the plate works, the building of a five-sectioned broad band rolling mill, the coal rolling mill at the Vereinigte Österreichische Eisen- und Stahlwerke AG at Linz; the refined steel rolling mill at the Schoeller-Blackmann Stahlwerke AG in Hönigsberg near Mürzzuschlag (where also a plant for the production of railway materials will be renovated); the extruding press and wrought-iron press at Turnitz; a plant for the production of deep mine drilling tools and equipment, the new sheet rolling mill and the rod mill at Kapfenberg (Gebrüder Böhler und Co. AG). (The new plant in Donawitz began operations in 1950. It is valued at $7,380,000. For the rest of the [652] iron and steel industry 274.7 million schillings were allotted from ERP funds. This represents 37.8 per cent of the 700 million schillings ear-marked for the investment program for 1950-52.)

(3) Investments in the metal industry, ore mining and smelting.

This branch of industry was partly war-damaged,
32' partly confiscated "German Property" by the occupying
316 powers or dismantled as war industries. Thus a complete
328 renovation was necessary in which not the least concern
was the regard for supplying the required raw materials
for the industries of finished and final products. Another
aim was to defend these industries, which depend so much

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316 It is thought that in the light-metals sector (production of aluminum) the bauxite mines at Unterlaussa (on the frontier between Styria and Lower Austria) will be extended to obtain at least the necessary raw materials for production. In accordance with the increase in the total European aluminum production required by the OEEC, Paris, Austria will endeavor to increase aluminum production in the smelting plants of the Vereinigte Aluminum Werke Ranshofen and in the plants at Lend of the Salzburger Aluminium Gesellschaft m.b.H. (up to 30 and 10,000 tons a year, respectively).

The production of non-finished metal products shall be extended by the completion of a light-metals plant of the österreichische Metallwerke A.G., the construction of which is already far advanced and by the project of a heavy-metal plant of the same firm. These plants are designed to overcome the bottle-neck created by the loss of the plants for non-finished metal products (Krupp in Berndorf and the Enzesfelder Metallwerke). For the Metallwerke Plansee Gesellschaft m.b.H., Reutte (Tyrol), the erection of a plant for the production of molten molybdenum has been planned; in addition, the erection of heavy presses, granulating and sharpening machines for the production of heavy metals as well as of special electrolytical methods for the production of hard metal alloys (Diamantmetal-legierungen) is proposed.

[352] In the scope of the investment program 1950-52 investments, 131.3 million schillings have been mobilized from counterpart funds for these industries. Of this amount approximately 40 million schillings (30.5 per cent) already has been allotted.

c) Investments in the electric industry.

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[727] A large number of machinery units and steam-power plants were destroyed or lost by the war. The Austrian economy, therefore, could recover only very slowly in the years 1945, 1946 and 1947, particularly because the supply of energy was definitely insufficient in the months of water shortage. Since 1948, supported by the Marshall Plan, remarkable progress has been made in supplying energy within the economic planning for electricity. Austria tries to overcome the existing difficulties, which arise out of the rapidly changing demand for current on the part of industry, in two ways: (1) by the extension of storage facilities and of caloric

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installations insofar as there are secure and sufficient supplies of coal (or insofar as new supplies can be exploited, such as those at St. Stefan im Lavanttal/Carinthia); and (2) by the extension of running water plants, or by stream diversion for the better utilization of existing storage facilities as well as by the reconstruction of war-damaged steam power plants (such as at the Vereinigte österreichische Eisen- und Stahlwerke A.G., Linz). The water power facilities; which are capable of extension, are estimated at 25 to 30 billion kwh (or even more).

In the course of carrying forward the development of water-power plants and of caloric-power plants since 1937, their capacity has increased by more than seventy per cent. The annual production amounted to 1,962 million kwh in 1946, 3,310 million kwh in 1949, and 3,717 million kwh in 1950.

Of the 1,410 million schillings provided in the investment program for 1950-52, 571.5 million schillings (40.5 per cent) was allotted to the development of energy in 1950. [652]

Important huge projects in the hydro-electric field which are now under construction and already far advanced are: the Ennskraftwerke, the Draukraftwerke, and, most important, the Tauernkraftwerke where progress on the Limberg-Sperre proposed for 1949-50 exceeded plans. The latter is one of the largest dams in Europe to cost approximately 250 million schillings. It is to be finished in 1952 and will be the main dam of the Kaprun-Tauern system. Part of the storage dam was made ready as early as 1949 and, with the installation of the second set of machinery in the power plant of the main dam, brings about an essential means for overcoming the exceedingly high winter demands for electricity. In 1950 alone 180,000 cubic meters of cement were poured into the construction of the Limberg-Sperre, thus making it possible to store approximately 61 GwH in the winter of 1951-52. The stages contemplated up to 1952-53 foresee in hydraulic water power an additional capacity of 346.5 megawatt as compared to a capacity (in million kwh) of 612.6 in winter and 1,071.4 in summer--a total of 1,684.0 for the whole year. The caloric power plants under construction are expected to bring an increase in capacity of 156.2 megawatt in the same period. The single projects are distributed over the whole federal territory with the bulwark located in the western federal countries. In addition, there is an extension of overland lines and high tension installations and other energy facilities.

d) Other industrial sectors.

● 652 [393] Thirty million schillings were allocated in 1950 to the investment program of the electro and cable industry. However, only 13 million have been disbursed, while the rest was carried over to 1951. Although the program could not be fully carried out, it was possible to make some necessary improvements and modernizations in this branch.

[387] Of the means provided by counterpart funds (73 million schillings) the chemical industry was allocated 23.1 million schillings as late as December 1950. The major part of investments in this industry was allotted to the nitrogen industry (the nationalized Stickstoffwerke A.G., Linz) which is scheduled to receive a total investment of 45 million schillings. In the last quarter of 1950 a fertilizer bin with a capacity of 50,000 tons was made ready and put into operation. Moreover, an installation for the production of ammoniated-sulphate with a capacity of 95,000 tons annually will be constructed and put into operation in the summer of 1951. The nitrogen industry is one of the most important earners of foreign currency in Austria.

[289] The Austrian pulp and paper industry (one of the oldest and most efficient of Europe) is to receive a total of 490 million schillings for modernization according to the investment program 1950-52. Of this, 220.2 million schillings (70.2 million schillings, however, as late as in December) were allocated out of ERP funds in the year 1950. The counterpart funds and the plants' own funds were used to extend existing boiler rooms and work space and to build new ones. In the same way boilers, bleaching-machines and installation of new paper mill machinery to replace old units were provided. Paper and pulp production has reached the prewar level and can compete in the export market despite sharp competition.

[288] The Austrian textile industry received 90.2 million schillings in 1950 from ERP funds. It was used together with its own funds to provide new machinery.

323 652 For the extension of the glass industry a total of 95 million schillings was provided out of counterpart funds. The glass industry received 14.1 million schillings in 1950 and, within the scope of the release for December (which, however, will be effected as late as in 1951), 8.4 million schillings.

Part of the proposed projects have been completed 323
and remarkable results obtained already. This industry was bolstered greatly by refugees from 652
Czechoslovakia.

Within the scope of the investment programs [362]
100 million schillings were allotted in 1950 to the erection of general dwelling units. In addition to a sum of 11 million schillings provided out of public funds, 34 million schillings were allocated for erection of workers' dwelling units. (The proposed amount in the three year period for workers' dwelling units was 85 million schillings.)

e) Investments for agriculture and forestry.

Damages caused by the war to this important [241]
source of supply (through exhausting the soil, lack of fertilizers and pest control, overcutting, etc.) can be restored only gradually. Because of the increased use of tools of production, financed by ERP funds, it was possible to reach a higher gross production value in the years 1948 and 1949. However, it still lagged behind the volume of industrial production which by 1949 had exceeded the prewar level. The [362]
higher production in agriculture in 1948 and 1949 made available bigger supplies of foodstuffs for city dwellers and also made it possible to increase the [231]
decimated livestock and improve it. Thus, gaps in supplies of milk, meat and fats could be filled in.

These improved results would not have been [648]
impossible without the ERP aid. In the first plan-year, Austria had at its disposal a total of 156 million dollars (or 57 per cent of the total amount of the ERP aid) to increase the production in agriculture, small business and industry. A sum of 18.7 million dollars was allotted to agriculture and supplied 139,000 tons of fodder, 189,000 tons of fertilizers, 4,200 tons of seeds, as well as agricultural machinery and veterinary supplies amounting to 1.1 million dollars. In the second year of the plan agriculture and forestry received approximately 25 million dollars for the import of tractors, caterpillars, threshing machines, reapers, motorized plows, disk harrows, replacement parts, milk separators, and machinery for soil treatment (and also to finance means of conveyance and facilities for forestry).

Up to the end of 1949 approximately 9,000
407 agricultural machines, with a total value of 31.5
474 million schillings, could be bought out of counterpart
funds. Through the formation of agricultural machine
cooperatives (about 33) even medium and small-sized
farms were able to share in the advantages of techni-
377 cal modernization. The progress of electrification
in rural areas supplied light and current to 4,800
farms. Storehouses and freezer lockers have been
built in fruit producing areas. In addition, dairies
and cheese making plants have been erected from ERP
funds.

652 Further investments in the agricultural
sphere are being carried out in accord with the invest-
241 ment program of 1950-52. For these purposes 270
million schillings were released from counterpart
funds in 1950 (i.e., 43.6 per cent of the 620 million
schillings provided in the agricultural priority pro-
gram, or 34.6 per cent of the total of 780 million
schillings provided in the whole program).

439 In forestry (exports), which is of paramount
importance to Austria, the approximate prewar level of
313 wood and timber output and supply has been achieved
through various rationalizations and especially better
means of transport and better roads. In 1948 the
timber output was 8.24 million cubic meters (Festmeter);
in 1949 already it was 9.24 million cubic meters; in
1950 the output could be increased to slightly over 10
million cubic meters.

The increasing production of timber and the stoppage of exports of undressed timber made it possible to supply sawmills and timber finishing plants with bigger quantities of wood in 1949 and 1950 than prior to the war. In 1949, 2.50 million cubic meters of whole timber were planed. In 1950 the amount was 4.41 million cubic meters as compared to 3.14 million cubic meters in 1937. The paper, cellulose, wood fiber and pulp industries could be provided to an increasing extent with all necessary raw materials (especially wood pulp); thus, covering not only the domestic needs but also enabling Austria to gain a foothold in former export markets.

The forestry and sawmill industry received 90
[652] million schillings in 1950 out of counterpart funds and,
in addition, 22.5 million schillings in December 1950
to be carried forward for use in 1951.

(271 million schillings), cotton goods (204 million schillings), fireproof bricks (200 million schillings) and glassware (201 million schillings). 439

The total index of import prices in 1950 was 627, that of export prices 531 on the basis of 1937 = 100. The corresponding figures for 1949 were 407 and 387. The increase of prices for import goods, therefore, were on an average far higher than was the case with exports (54 per cent as against 37 per cent).

A comparison of the commercial imports with exports for 1950 shows an unfavorable balance of 576 million schillings (as against a balance of 1.2 billion schillings in 1949). Including gratis deliveries within the scope of the ERP, the deficit, however, increases to 2.7 billion schillings (in the previous year the deficit of the total exchange of goods was 3.7 billion schillings). The deficit in the exchange of goods with foreign countries was covered in the first half of 1950 by drawing rights and in the second half of 1950 by using up the Austrian credits at the Bank for International Payments after the agreements with the European Payments Union had gone through.

Further betterment of the Austrian economy is intended through the following. The Export Advancement Law (Ausfuhrförderungsgesetz) provides granting medium and long-term credits up to a limit of 500 million schillings under state guarantee. [Up to March 23, 1951, the Nationalbank received applications for credits totaling 174.5 million schillings; 79 million schillings of which represented refinancing. As the state guarantee comprises only 80 per cent of the export credit, 77.6 million schillings (80 per cent of the 97 million schillings) were tied up on the key-date in accordance with the Exporterförderungsgesetz, i.e., 15 1/2 per cent of the maximum of 500 million schillings.] The Austrian Export Funds A. G. (Oesterreichische Exportfonds A.G.) will support exports of craft goods to hard currency countries through credits. They will start with 25 million schillings. [The first interim balance of the corporation shows credits amounting to 16.4 million schillings, i.e., about two-thirds of the export funds (25 million schillings) at the end of March, 1951.] On October 5, 1950, an agreement was reached for simplification of exchange rates together with measures for 652 [433] 457

457 raising the productivity of the whole economy.
652 Toward the end of the year a change in the problems concerning the whole economy could be observed owing to increasing tension in the balance of foreign currency and payments.

B. The Austrian Contribution to Freer Intra-European Trade.

439 Although exports increased in the last few
years, they could not, as the preceding figures have
652 shown, cover the total imports in 1950. The dif-
457 ference was covered again through foreign aid (ERP grants) and through credits, as was the case in earlier years. Thanks to foreign aid, which financed the biggest part of the imports of foodstuff, raw material and coal, the Austrian economy had a total import which, by 1949, exceeded the prewar level in volume and covered the demand of imports most urgent for reconstruction purposes.

In spite of this fact, the balancing of foreign currencies, with regard to the United States as well as to most other countries, could not be attained by means of market transactions. In contrast to the progressive relaxation of state controls in the domestic economy, the demand for imports had to be limited by import licenses and allotments of foreign currencies to the amount available for the import of goods. Regulations and procedures of this control of the foreign trade were determined by the law of Foreign Trade Traffic (Aussenhandelsverkehrsgesetz). (This law was amended in April 1951 owing to special developments caused by the necessary laws of economic policy.) The partial lifting of intra-European trade barriers [hereafter referred to as "liberalization" by the author] started in the fall of 1949, brought problems of trade policy and of foreign currencies.

In September 1949, the council of OEEC (Organization European Economic Cooperation), in Paris, decided to liberalize 50 per cent of the foreign trade between the European ERP countries in order to create a simplified economic area. Austria agreed with the principle. But it had to be very careful in abolishing import restrictions in view of developments in its balance of foreign currencies, otherwise the balance aims would have been endangered. Thus, for liberalized goods, a number of administrative simplifications in the import procedures were created (exclusion of the obligations for a license by the "Aussenhandelskommission"). The import of these goods is dependent upon the momentary availability of foreign currency. Austria's special situation was also recognized by the OEEC, Paris, which agreed that the measures taken corresponded to the actual situation. In spite of this, Austria made a reasonable contribution toward the integration of the whole European trade policy as proof of its goodwill. For example, in the foodstuff sector, goods with an import value of 10.5 million dollars, i.e., 32 per cent of the commercial imports from ERP countries, were liberalized in October 1950. In liberalization the emphasis lies with the raw material sector, in which 45.5 million dollars (or 84 per cent of the imports from ERP countries) were liberalized. With regard to the accentuated investment policy, moreover, a number of items of the finished goods category were freed from import restrictions. In volume the liberalization represents goods amounting to almost 86 million dollars, i.e., a liberalization of 60 per cent of the imports from ERP countries.

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From the standpoint of the economic policy, liberalization measures are characterized as follows: in the foodstuffs category, 70 per cent of those foodstuffs used for human consumption were liberalized, whereas agricultural products or those which are produced in sufficient quantities in the country itself were excluded from liberalization.

Furthermore, to increase the productivity of agriculture, almost 100 per cent of fertilizers and chemical products for agricultural use were liberalized. The very important fuels were freed from import licenses up to 80 per cent and iron alloys almost up to 100 per cent. In the same way, almost 100 per cent liberalization was made for non-iron metals and concentrates and raw alloys therefrom, as well as the important demand for raw materials by the textile industry, which cannot be supplied from the country itself (80 per cent).

A high quota of liberalization is shown in the category of finished goods, especially of chemical finished products (with about 70 per cent) and of synthetic fibers (with about 90 per cent). With regard to the extensive demand for investments, machine tools for metal production were liberalized up to 90 per cent and the demand of various industries by more than 75 per cent.

439 457 652 In order to make the liberalization fully effective it is necessary to abolish foreign currency restrictions for goods which have been liberalized and that is where the difficulties arise. Although the Initial Position in the value of 80 million dollars granted within the scope of the European Payments Union supports this effort through a relaxation in the foreign currency situation, it did not effect a general solution of these problems. The so-called dollar problem still exists in a very real sense.

[648] The European Payments Union, of which Austria is a full member, was put into force on July 1, 1950. It is the logical continuation to the reorganization of the European Payments system, started by the OEEC with the "off-shore" and drawing rights system. Above all, it was to further the lifting of trade barriers between the ERP countries and to carry out the principle of non-discrimination, the equal treatment of all parties within ERP Europe.

These measures, however, did not solve the precarious dollar problem for the ERP countries and Austria since it was not the aim of the European Payments Union to promote European exports to the USA and other hard currency countries outside the ERP. Also the currencies of the EPU countries are interconvertible but not against the dollar. For Europe, therefore, the dollar remained a very rare and hard-to-obtain currency.

A certain relaxation was caused by the new developments in the second half of 1950. The relaxation of the dollar shortage was not caused by the combination of the individual elements: the European Payments Union, liberalization and integration. Rather, due to external causes, it was a consequence of world economic changes which, owing to the conflict in the Far East, opened new markets of peacetime demands to those countries not directly involved in defense measures. (The dollar shortage is essentially a special structural problem of world economy, the causes of which go far back into the war years and are above all connected with the loss of southeastern Asia and the establishment of synthetic production processes in the United States.)

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A change in the general aims of economic policy had also taken place because of the European Payments Union. While in the first phase of economic planning by the ERP the investment plans were stressed, now the primary target within the scope of the European Payments Union was the currency system. The ERP was not only a preliminary stage to the free exchange rates between the currencies of ERP countries and the dollar, but it was also to help prepare the possibility for the functioning of international currency funds on the broadest scale. As far as Austria could fulfill these tasks it made a contribution to the whole European currency order by the simplification of its exchange rate system and the fixation of the existing exchange rate of 21.36 schillings to one U. S. dollar for all traffic in goods. (This regulation of October 5, 1950, has been mentioned previously.)

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In the meantime, alterations in the structure of world trade in the early part of 1950 (shortages on the raw material market, increases in prices)caused a change in the commercial policy toward the whole problem. Thus, the discussion of a number of special tasks and principles became necessary (this was also true for Austria). Up to this time the center of gravity in trade policy always lay with the exports, but this shifted to imports considerably toward the end of the year. Comparing quantities became more or less unimportant; the question of "what" in exchange of goods became more important than the question of "how much." The problem now is: what type of goods should be exported and which imports are desirable to make these exports possible? Can the domestic economy, under the given conditions, do without those export goods and does it receive instead of them such goods as it really needs? Or, will the domestic economy lose, by export, such materials that it really requires to maintain its own capacity? Perhaps goods will be imported which, although pleasant and useful, are not really necessary. Such are the questions which were the center of all deliverations concerning trade policy toward the end of 1950.

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In the course of this development one can observe elements of retrogression to the compensation system in trade among the nations (or, to be more correct, among the ERP countries) around the end of the year 1950. Although business is carried out in principle in accordance with the clearance system, 439 457 652 many a business transaction is again of the barter type. At present these do not lie in the sphere of private business transactions but are at the level of state control. If one bears in mind the whole European trend under the system of liberalization and of the EPU, this is a typical retrogression which tends toward bilateralism instead of multilateralism. No doubt the system of compensation will prevail again since the factual renunciation of multilateralism in favor of the clearing transactions has to face, at the present time, quite different conditions than existed at the time when those changes, disputed as they were, offered the only possible solution.

Certain signs of a crisis in the policy of liberalization constitute a further problem which influences the trade policy of single states in recent developments. Confined at first to only a few states, this crisis engulfed a still larger number of European trade partners toward the end of the year, since a liberalization without guaranteed payment (foreign currencies) does not at all fulfill the aim of increasing trade relations. The payments traffic on the clearing accounts which, in last analysis, reflects the traffic of goods between the participating states shows a debit tendency.

Under these conditions, Austria faces a number of special tasks in trade policy, the solution of which, however, is not Austria's responsibility alone. Above all, the task is to reach agreements in which the Austrian economic potential can be fully utilized and which afford the possibility of adapting to developments rather contrary to the agreement terms. Austria offers its partners goods (such as timber, magnesite, steel and iron) which are needed all over the world. At the same time, there must be readiness to accept finished goods for deliveries of these vital goods. Problems of prices and of competition (aside from the increase of productivity in the total economy) must be solved in a way which diminish the disadvantages of the non-elastic clearing traffic without producing, on the other hand, unbearable consequences in the policy toward foreign currencies. It must be the most important task of the Austrian trade policy to secure the import of such goods as Austria needs to maintain full employment and, thereby, social stability

IV. AUSTRIA'S ECONOMIC POSITION IN 1951

452 The following points are characteristic of the economic trends in 1951.

1. In the monetary field: the tendency in the world economy toward forcing reductions in the credit policy; the figures will be rounded-up by an increase of the bank rates toward the end of the year;

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435 2. In the budgetary field: the approaching end of ERP aid makes it necessary to reduce the price supports still existing;

454 3. In the field of investment policy: a reasonable balance between the investments of the production goods sector and the consumer goods sector is to be prepared; by increasing the offer of goods ready for consumption and export the imbalance in the balance of payments will be overcome as rapidly as possible;

439 4. In the field of foreign trade: the shortage of raw materials and the existing discrepancy between the trade and foreign currency balance (deterioration of the exchange rates) make special laws and measures necessary to promote exports;

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465 5. In the field of prices and wages policy: certain discrepancies in prices, especially in the agricultural sector, make necessary adequate adjustments as well as improvements of real income of wage earners to the level of higher prices;

6. In the field of production and productivity: a general increase of the capacities and the extent of capacities, is necessary between the social partners and the abolition of burdens which prevent an increase in production. Adequate relations should be created.

A. International Economics and Austria's Reaction

000 A glance at the representative statistics prove that international development proceeded along quite different lines in 1951 than was expected at the beginning of the year. The steep rise of prices for raw materials, especially those of wool, tin, rubber, which started from the beginning of the Korean crisis have created an ever-increasing inflationary tendency.

aid which was granted.) The result was not only a very early claim upon direct aid (in the third ERP year, i.e., from July 1, 1950 to June 30, 1951--8.81 million dollars) but also an exhaustion to a very considerable degree of the Initial Position supplied by the EPU in the amount of 80 million dollars. To ease the precarious situation, the OEEC was asked to increase the direct aid and to extend the Initial Position. This was granted by ECA after complicated discussions with regard to the special situation in Austria; at last, amounts of 18.2 and 10 million dollars, respectively, were granted for the period up to June 1951. 457

B. Credits, Wages, Prices and Subsides (Measures and Agreements).

The higher prices of foreign raw materials, their shortage, and the reactions which followed the fourth price and wage agreement reached between the Chambers of Economy (Wirtschaftskammern) in September 1950 led eventually to an actual transfer of the single cost elements, thus endangering the potential exports of Austria designed for the international market. In 1950 the center of gravity in the foreign trade policy lay with the foreign currency policy and was the main concern of the Nationalbank. The existing international shortage of raw materials shifted this center to the planning of quantities of imports and exports. The Austrian Federal Government, therefore, had to coordinate Austrian economy with world economic conditions. A number of economic-political proposals were introduced in the National Assembly, which, limited in time to June 30, 1952, were enacted in the last session of the Fall Convocation 1950-51 (ending in February 1951). These were the laws enacted. 652 [439]

1. The law concerning the creation of an economic directorate (Wirtschaftsdirektorium) consisting of members of the Federal Government; it has as its task coordination in the fields of production, prices, food supplies and foreign trade policy. 656

2. An amendment to the price control law (Preisregelungsgesetz) to exercise a rein upon prices; [435]

3. An amendment to the raw materials allocation law (Rohstofflenkungsgesetz) which is supposed to channel raw materials of which there is a shortage toward those goals which are most urgent economically; [433]

652 4. An amendment to the foodstuffs control law (Lebensmittelbewirtschaftungsgesetz) which aims at assuring a basic amount of food for the people;

5. The foreign trade law (Aussenhandelsverkehresgesetz) aiming at providing a legal groundwork for the coordination of the procedures and decisions of the Economic Directorate with the activities of those officers who were entrusted with handling problems of foreign trade.

Moreover, it became necessary (as was already the case in other countries) to take certain measures in money and credit policy against the progression of inflationary forces.

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458 One of the first results of internal measures was an agreement reached between the Austrian Nationalbank and the Association of Austrian Banks and Bankers on March 16, 1951, concerning the procedures for a qualitative selection of credits. Its aim was to prevent the extension of credits which could not be reasonably justified. A new definition of the economically non-justifiable credits stipulated a sharper selection of the individual applications. In extension of this agreement, another agreement was reached between the Ministry of Finance and the abovementioned group of credit institutions, sanctioned also by the Austrian Nationalbank, as of April 6, 1951. A quantitative control of credits was provided exceeding the items of the former agreement. The credit institutions which made this agreement accordingly obligated themselves to maintain, for the beginning, a liquid reserve of 25 per cent in foreign means. An increase of this reserve to 30 per cent toward the end of 1951 was anticipated, with the condition that then 10 per cent liquid means of first grade and 20 per cent of such means of the second grade must be kept on hand. (Liquid means of the first grade are: cash, deposits at the Austrian Nationalbank and at the Oesterreichisches Postsparkassenamt. Liquid means of the second grade are: negotiable federal savings bonds at the Austrian Nationalbank, checks, payable coupons, deposits which may be used as collateral at the Austrian Nationalbank, deposits payable daily at the Austrian credit institutions.)

After rising prices had relaxed somewhat in
435 May, prices in general rose again after June (partly
652 seasonal). The indices of wholesale and retail prices as well as of the living cost were rising again thereby

bringing new problems of adjustment. These were 652●
solved by a new general agreement of the Chambers of
Economy (in July 1951), in which the main consider- [435]
ations were: the out-of-line prices in agriculture, the necessity of decreasing the subsidies for imports still existing, and the boosting of tariffs.
Special aims of the economic policy were:

1. To restrict the utilization of foreign aid for [434]
consumption goods in order to afford a bigger part of the total volume of goods and services for investment activities or, at least, a non-fluctuating part in the case of a decrease in foreign aid. The top aim was a change in the utilization of the gross national product.

2. To balance the agricultural prices which were [435]
out of line. In this way, conditions were to be created for an optimal distribution of the available aids through the price mechanism (changes in the constitution of the gross national product).

3. To effect conditions for a new distribution of [454]
income; this referred, in the first place, to agriculture and employment in public services, to persons living on state relief and pensionists (for these last two groups an adjustment of the real income was secured by the so-called "Nachziehverfahren"); the real wages of the other wage earners should be kept on the existing level (changes in the personal distribution of the gross national product).

It was not easy to encompass these aims within the concept of economic policy, since automatically secondary and tertiary reactions to these changes were to be expected upon the total price structure. Be that as it may, the immediate results of this agreement were the following regulations:

1. Agriculture received higher production prices [435]
for wheat, rye and milk, by which a better market capacity might be obtained (stimulation of the production).

2. The subsidies for the import of bread grains, [654]
fodder grains, and raw materials for fats were diminished. [439]
Consumer prices corresponded generally to the average (newly calculated) prices of the producer (unless fixed by special regulations). As far as import subsidies continued, they became part of the budget while the incomes from sales were kept on the same level of value as those from the ECA counterpart accounts.

435 656 [651] 3. The tariffs of the public corporations (Federal Railway, Posts, Tramways) as well as the prices for current were increased[1] from 20 per cent to 100 per cent to keep pace with the prices on the world market which had increased due to increases in cost (especially the price of coal); the trend toward a deficit in the Federal Railway and public service enterprises had to be checked. In spite of these considerable increases, these price rises were only three to five times as high as the level of 1937.

[465] 4. On the basis of the newly calculated producer and import tax prices, new retailer prices were worked out; to balance this rise every receiver of gross wages received an additional income of from 10 per cent to 12 per cent per month, but at least a minimum of 140 schillings. For persons in the public service, special measures were taken on the ground of the so-called "Gehaltsüberleitungsgesetz."

[651] 5. Finally, in immediate connection with this agreement a number of taxes and duties were altered: progression of the taxes on wages and incomes; a change in the rates of the mineral tax; a change in the contributions of the employers to the balance funds for charitable relief; a change in the turnover-tax; on the grounds of the law of adjustment of social insurance of 1951, the basis of the maximum contributions to social security were changes.[2]

[648] [654] The most remarkable progress within the scope of this agreement, however, was (as already mentioned) the reduction of subsidies. As is known, the individual ERP countries obligated themselves in the bilateral economic agreements (Austrian agreement, August 2, 1948) toward the USA to pay the full value of the American relief deliveries in the currency of the recipient country on a special account (counterpart accounts). These accounts should be disposed of by the individual governments in accordance with the approval of the ECA to cover, as a rule, the financing of productive investments and to support currencies. The utilization of these means for financing for consumer goods should be limited as far as possible, although this had been tolerated in the beginning to raise the general standard of living. The purpose of this limitation was not to prolong the dependence upon foreign aid which was to end toward the end of June 1952.

457 652 With regard to the necessary balancing of the balance of payments (the special measures to achieve

[1] [i.e., in July, 1951. Cf. cat. 116, p. 97, for rationale--Analyst]

[2] [sic.,--Analyst]

these aims will be discussed later), which becomes more and more urgent because of the decrease in ERP funds, means from counterpart funds for investment aims had to be released to an increasing degree. 457 652

The Austrian government declared, therefore, its readiness as early as the fourth price and wage agreement to abolish all ERP subsidies for imports. In the interest of keeping living costs at the lower level, also, certain quantities of vital goods were provided at lower prices in 1951. Besides fertilizers and raw materials for fats (which continued to be calculated on the basis of former prices), the prices of wheat and fodder corn were increased but they still remained far below the prices on the world market. In addition, smaller subsidies were provided to support the prices of sugar, glass, drugs, and hides. 652 435 439 654

In spite of the partial abolition of subsidies, they still amounted to approximately 1 billion schillings for the period from October 1950 to June 1951. Seven hundred and fifty million schillings went to the debit of the counterpart accounts and 250 million schillings to the debit of the budget. Further subsidies had to be faced for two reasons: a sinking of the allocated means in the last year of the Marshall Plan (1951-52) had to be taken into consideration; and further means were necessary to continue investments which already had been started.

The agreements, therefore, provided adequate increases in sale prices for the import of individual goods. In spite of these price correction measures by which the difference between the import prices for wheat, rye, fodders and raw materials for fats and the prices on the world markets could be diminished, but not fully absorbed, there still remained a considerable burden on the budget because of the existing prices on the world market and the projected quantities of imports, as well as by changes in the ways of financing (transfer of counterpart accounts to the public budget). Thus, the differences had to be covered by the next balance period, a fact which the government budget 1951-52 had to take into account. This problem will rise again with the end of the Marshall Plan aid in June 1952.

If one considers the results of these agreements as a whole, a clear success had been scored in the prevention of further increases of subsidies, in the improvement of real income of public servants, 652 434

434 pensionists and persons dependent on state relief.
652 The correction of some out-of-line prices was also effected. To achieve these results the gross income of wage earners increased by approximately 6.1 billion schillings, the tariffs by 1.5 billion schillings and the incomes of agricultural workers by 640 million schillings. A flow of money has been effected surmounting by many times the net effect of the transfers in incomes. Future regulations will provide the final easing of tensions caused by the structure of prices and wages. By the same token, the final solution of certain apparent budgetary problems (remaining subsidies) and problems of the economic policy must be postponed, especially in view of social considerations.

435 The increases of prices, wages, taxes and tariffs by the fifth price and wage agreement caused, in many respects, a considerable movement of prices even in fields other than those comprised in the agreement. The intensity of this movement, however, was diminished by the continuing high industrial production (the number of employed reached more than 2 million people in the middle of the year) and by the sinking of prices in the world markets. However, there were a number of secondary, even tertiary, reactions which could not be avoided, although these reactions raised the general level of prices as a result of increasing demands in the second half of the year.

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439 The prices of raw materials, however, were stable in the early summer. The wholesale trade index of the Statistisches Zentralamt sank by 0.6 per cent (from 795 to 790; based on the formula 1938 = 100) from the middle of July to the middle of August. This was caused mainly by price reductions of the most important foreign raw materials (wool, rubber, tin), while domestic raw materials and semi-manufacturers (leather, petroleum, gasoline, building materials, aluminum and cellulose, among others) brought higher prices. This backward development led to a rise of domestic prices of raw materials and semi-manufactures so that they approximated the highly increased prices in the world market after the outbreak of the Korean conflict. Special problems in the development of foreign trade became acute because the prices of domestic finished goods had to adjusted to the levels of world market prices.

C. Developments in Credit Volume.

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The features which influence the volume of payments and credits in an economy come partly from without and partly from within. The impulses, as is clearly seen in 1951, came from the flow of a world-wide inflationary price (wages) development; on the other hand, they were reflected in the necessities of the domestic economy which were expressed by the lines of the investment policy. Every investment ties up the invested capital (credit) until such time as the investment becomes productive.

If one wishes to avoid the danger of stopping investments before they reach the stage at which they are productive (*i.e.*, to leave them unfinished and lose them within the scope of the total economy) then it is necessary to provide the proper means for completing investment projects, even if one could prove that a deceleration of credit expansion would be the correct measure. Moreover, the extension of credits requires, in this connection, the disposal of means for operation and credits for raw materials. All these are elements which make the development of credits (as seen from the standpoint of establishing programs of investments) of a necessary character to a certain extent.

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The consumption of credits caused by the war, and the lack of an efficient capital market, shifted the center of gravity in financing (excluding investments out of public funds) necessarily to credit channels (see *Monatsberichte* for January 1952: "Die Wiener Börse im Jahre 1951"). Among the main sources of financing there are (excluding the liquid reserves of the credit institutions themselves) the increasing savings as well as those legal measures which support the techniques of financing (guarantees by the government in financing investment--Aufbaukredit and Absicherung von Exportkrisen, or protections against export crises) and, above all, the counterpart funds for potential refinancings at the Nationalbank. It is quite clear that these refinancings at the bank of money issuance (in Austria, the Nationalbank) can be only limited interim financing which must be consolidated in due time by consumption in the capital market.

If one considers the changes in the volume of total credits in the last year, one observes (on the basis of the report of the Board of Directors of

452 the Austrian Nationalbank) an increase of the total
652 amount of credit extended from 10,677.2 million
schillings (December 31, 1950) to 15,226.5 million
schillings (in the end of December 1951).

The total volume of credit comprised in the single categories of credit is:

	Dec. 31, 1950	Dec. 31, 1951
	(in millions	of schillings)
Credits for raw materials[a]	702.0	804.6
Other commercial credits	7,707.6	10,347.6
Reconstruction credits[b]	2,267.6	4,074.4
TOTAL	10,677.2	15,226.6

[453] a) These are credits which are to finance the im-
port of semi-manufactures (in the first place, raw
materials). Promises of refinancing are given by the
[457] Nationalbank and by credit institutions which have to
guarantee them along with the Nationalbank. They come
from direct and indirect ERP aid for carrying out of
deliveries.

b) These are check-credits serving the financing of ERP investments out of ECA releases. They are guaranteed by the government according to the law of March 30, 1949 (BGBl.101/49) and by the promise of refinancing by the Nationalbank.

Listed below are the total credits according to their use as of September 30, 1951 (a later listing is not yet available).

	In Millions of Schillings		
Total credit volume	14,415	=	100.0 per cent
Commercial credits	10,908	=	75.7 per cent
ERP credits	3,507	=	24.3 per cent
From these: Industry and Mining	3,500	=	99.8 per cent
Small business	7	=	0.2 per cent

The commercial credits are listed as follows:

Industry and mining	4,342	30.1 per cent
Trade	2,894	19.3 per cent
Small business	934	6.5 per cent
Agriculture	759	5.3 per cent
Länder and municipalities	623	4.3 per cent
Other credit purposes	978	7.6 per cent
Reconstruction of dwellings	378	2.6 per cent

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The development of Savings and Checking Accounts is shown in the following table:

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	December 1950		November 1951	
	(in millions of schillings)			
Grand Total:				
Savings Accounts	2,198.1		2,320.0	
Checking Accounts	7,271.1	9,469.2	8,817.6	11,137.6
Break-down:				
Joint-Stock Banks				
Savings Accounts	484.5		537.2	
Checking Accounts	4,056.3	4,540.8	4,993.1	5,530.3
Bankers				
Savings Accounts	17.5		23.3	
Checking Accounts	250.9	268.4	207.0	230.3
Savings Offices				
Savings Accounts	965.3		954.7	
Checking Accounts	1,091.7	2,057.0	1,365.9	2,320.6
Credit Associations				
Savings Accounts	488.8		542.6	
Checking Accounts	386.4	875.2	466.6	1,009.2
Other Credit Institutions				
Savings Accounts	242.0		262.2	
Checking Accounts	1,485.8	1,727.8	1,785.0	2,047.2
		9,469.2		11,137.6

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Since the beginning of the Marshall Plan up to November 30, 1951, an amount of 12,280.1 million schillings was deposited in the special fund as a schillings equivalent of ERP aid deliveries (U.S. laws 84, 389, 470 and 472). From this amount, 750 million schillings were released for monetary purposes, 6,875 million schillings for financing the industrial investment program, 54.9 million schillings for other purposes, and 579.4 million schillings for the 5 per cent quota reserved for the U.S.--a total of 8,284.3 million schillings. On the key-date an amount of 3,995.8 million schillings remained for further purposes. (These figures do not include the United States aid transactions in the amount of 478.2 million schillings for the period from July 1, 1947, to December 31, 1947, the latter amount referring to purchases.)

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To evaluate these consequences, the changes in the structure of production are of main interest. According to the Austrian school of national economy, and according to the conception of competent representatives of this science in Sweden and in the Anglo-American area, the main consideration has to be given to changes in the relations between productive and consumptive utilization of capital. As in European countries other than Austria, the production indices of production goods industries increased at a higher scale than those of the consumer goods industries. This economic center of gravity becomes more clear by listing the release of the ERP funds for the total industry. Excluding public investments and means for covering special reconstruction problems, approximately 2 billion schillings out of a total of 2.6 billion schillings flowed into the production goods industry (power plant construction, coal and ore-mining, iron producing industries, etc.) and 607 million schillings into consumer goods industries (textiles, foodstuffs, paper). The distribution of these funds was aimed at affording Austria the opportunity to match the technical and industrial developments in the rest of the world, at least in the field of primary materials and semi-manufactures. The use of a big part of the credit volume, therefore, is fixed by the purposes of the official investment programs which are worked out by the Austrian government in consultation with economic circles and the ECA in Washington. Complementary credit demands (Betriebsmittelkredite) are tied to this credit as a consequence of the extension of capacity and the industries participating directly in these investments.

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The agreement on qualitative and quantitative credit measures reached between the Federal Ministry of Finance and the joint stock banks in the spring of 1951 was followed by an additional agreement of October 10, 1951, paralleling the general international development. This later agreement allowed an increase in the total credit provided or promised by a bank, as of August 31, 1951, under certain conditions. [These are schilling credits in current amount, draft credits regardless whether the drafts remain in the portfolio of the bank or whether they are rediscountable moreover, mortgages and municipal loans (unless they already serve to cover issued mortgages and municipal obligations), as well as requirements against Austrian credit institutions which do not exceed a thirty-days' validity. Not included in the total are reconstruction credits, credits granted for financing exports and

those for financing the harvest. The allowable increase of the total amount of credits (excluding the above-mentioned restrictions) may not exceed 70 per cent of the increase of obligations, i.e., of those means which recently have flowed in. An additional increase exceeding the above-mentioned total of credits is allowed only under the condition that liquid means of the first and second grade, in accordance with the agreement of April 6, 1951, effective August 31, 1951, exceeded the necessary liquid reserves at that same date; otherwise, the credits must be restricted to the rate of prescribed reserves. Other items of the agreement refer to the regulations concerning utilization and eventual sanctions if they do not keep to the reserve rates.]

For the purposes of coordination, the additional agreement stipulated that representatives of the bank must meet at least once a month at the Federal Ministry of Finance or at branches of the Austrian Nationalbank. They meet in the form of regional committees to discuss problems of credit policy to establish directions of restriction credits by their own volition, to discuss their fulfillment on the basis of the material in current figures, and from time to time to provide changes in or additions to these directives. The banks are represented in these credit committees by a six-member committee to which one representative each is delegated from the three nationalized big banks (Handels-und Gewerbebank, Arbeiterbank and the Bankhaus Schoeller and Co.). A measure of greater importance to currency policy is the decision of the General Council of the Austrian Nationalbank to increase the bank rate from 3 1/2 per cent to 5 per cent as of December 5, 1951. (Corresponding to the change of the bank rate, the rates of interest for deposits were altered. Specifically, it was decided that current account deposits will be handled in the future at the rate of 1 per cent instead of 3/4 per cent used until then. The rate of interest for savings deposits and non-negotiable paper was set at 3 1/2 per cent; if left on deposit for at least six months the rate was 4 per cent, and if left longer than 12 months, 4 1/2 per cent. At the same time the limit for free disposal savings deposits was increased from 3,000 to 5,000 schillings per month.) By so doing, Austria joined a number of countries which already had raised their bank rate since the outbreak of the Korean crisis (Belgium, Denmark, West Germany, Finland, France, Great Britain, Canada, the Netherlands, Sweden, and the United States). For the first time since the end of the war the enforcement of this measure

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in currency policy puts a special stress on the discount rate as an instrument of the policy of money-issuing banks. (The last change of bank rate in Austria had been in 1935.)

Considered from a merely economic point of view, the rise of the bank rate means a transfer of the prospects of profitableness from long-term to short-term investments. In this way those endeavors are to be supported which aim at compensating the effects of the present essentially decelerated extension of credits through a greater offer of consumption and export goods in relation to price policy. Moreover, the increase of the bank rate is a proof of the necessity to go back to measures of economic policy which are in conformance with the conditions or the market. The more the bank rate approaches the so-called "natural rate of interest of capital" the less it is necessary to take other methods for the extension of credit for every quantitative and qualitative credit selection contains elements of subjective opinion. Moreover, the limitation of the volume of credits not only constitutes fixation of a certain figure but, under the prevailing economic conditions, of a fixed relation between investments in the production goods industries to that in the consumption goods industries. This relation, which is so decisive for credit policy and, in turn, for the stability of prices, approaches its equivalent value more when the economic function of the rate of interest provides a selection among the various possibilities for the utilization of capital. The field of credit policy is the one in which it is most ~~difficult~~ to replace the market mechanism by typical control measures.

Of course, there can be no doubt that supporting reconstruction by a policy of "cheap money" made sense in many respects--especially when one considers the conditions which prevailed in Austria in early postwar years. With reference to continuing consolidation, one has to try to reach an economic selection even here and to adjust credit to the development that has taken place already.

According to the agreement of April 6, 1951, beginning with January 1, 1952, the banks are required to keep 10 per cent of their obligations in liquid means of first grade. This means that the cash reserves in those banks will rise substantially after that date. In addition, the discussions which were held before the October agreement was reached brought

out that the main proportion of the extension of
credits (as a consequence of the first agreement) 652
flowed out of the accounts for financing imports of 453
vital raw materials and of credits for the support 452
of exports. These conditions do not lie within the banks' sphere of influence (not taking into consideration the directives for credits as laid down in the public investment programs). The occasional considerable reserves of the banks, which are tied up with the allocation of foreign currencies, must be taken into consideration.

It is a fact that the individual measures already showed an impact toward the end of the year. According to the statistics on credits and liquid money of November 30, 1951 (i.e., one month after the enforcement of the second agreement) the volume of credit, which is under control, decreased for the first time since 1947 by 30 million schillings--a rather low amount. Even if one considers the financing of credits for exports, and the especially high financing of credits for the sugar beet harvest, there is a total decline in volume by 80 million schillings at a time when a general increase in credit demands could be observed.

There are today two methods of determining the total of the means of payment in an economy at any given date. The Anglo-American method takes into account the total volume of the means of payments in circulation, plus free obligations of the national bank, plus checking account deposits at the commercial banks, minus interim bank obligations (i.e., deposits of credit institutions at the national bank and at credit institutions). The Continental method does not take into consideration the checking account deposits at commercial banks. (Recently, the Anglo-American method has been used in Austria, too.)

If one compares the development of the volume 436
of money (paper money in circulation, plus checking 652
account deposits, plus free deposits not at the banks 453
but at the Nationalbank) in the previous year, an increase is shown from 14,608 million schillings to 17,164 million schillings since the end of December 1950 to the end of October 1951 as against a credit volume of 10,677 million schillings and 14,780 million schillings, respectively. The circulation of paper money rose in this period from 6,349 to 7,326 million schillings, the checking account deposits from 7,271 to 8,939 million schillings. The free deposits of public agencies, which

[436] 652 453 are held at the Nationalbank, sank from 988 to 800 million schillings in the same period. At the end of December 1951 the circulation of paper money amounted to 8,023 million schillings, the free non-bank deposits to 987.7 million schillings.

The flow of the volume of money was mainly influenced by the expansion of credits as well as by the flow of counterpart accounts. Exits on the basis of releases and current payments from proceeds caused a decline in time-limited deposits of public agencies at the Nationalbank (mainly counterpart accounts) from 1,941 million schillings at the end of December 1950 to 1,290 million schillings at the end of October 1951.

Bank statements show a considerable reduction in the "Bundesnotenschuld," from 4,124 million schillings in October 1951, and 2,030 million schillings at the end of December 1951. In the first statement after the currency reform of 1947, this item was still 7,547 million schillings higher. The exits in the last four years amounted to about 5,517 million schillings. Out of this amount, 850 million schillings went to retirement of the national debt (as provided for the purpose of securing currency stability on December 31, 1948). Another approximately 4,461 million schillings went to the releases of ECA funds for ERP investments in industrial enterprises; the remaining 205 million schillings went for other economic and political-financial purposes.

Amounts increased, however, for refinancing the reconstruction credits. From December 1950 to the end of October 1951, the increase was from 2,277 million schillings to 3,612 million schillings, and exceeded by 4,042 million schillings the 4 billion limit at the end of December 1951. The subsequent treatment of these blocs of reconstruction drafts (which were no longer handled by the Nationalbank) and their transfer on the capital market has been treated in another connection.

The free endorsement deposits of the credit institutions sank with the extension of credits from 299 million schillings (at the end of December 1950) to 211 million schillings (at the end of October 1951). However, they recovered to 540 million schillings towards the end of December. This increase is very closely related with the obligations of the banks to keep 10 per cent of their credits in liquid means of the first grade.

A comparison of the Nationalbank's position as of the key-dates (December 31, 1950 and 1951) gives the following picture.

	1951	1950	+ or -
	(In millions of schillings)		
ASSETS			
Gold	51.1	50.3	+ 0.6
Foreign currencies	582.5	449.3	+ 133.2
Checks'	1,709.8	809.2	+ 900.6
Teilmünzen (coins)	2.3	2.8	- 0.3
Reconstruction credits	4,041.9	2,227.0	+1,814.9
Bonds (under par. 27 of the Währungsschutzgesetz)	807.0	749.3	+ 57.7
Bonds (under par. 2, item 1, of the amendment of the Notenbanküberleitungsgesetz)	1,402.7	1,200.2	+ 202.3
Loans	34.5	34.7	- 0.2
Money debts of the state	2,029.9	4,123.9	-2,094.0
DEBITS			
Circulation of bank-notes	8,032.0	6,348.9	+1,683.1
Free banking accounts of credit institutions	539.5	428.6	+ 110.9
Others	580.6	987.7	- 407.1
Closed banking accounts of credit institutions	40.3	40.3	--
Others	1,469.3	1,841.4	- 372.1

Finally, one can state that in the course of the year 1951 the total volume of the means of payments increased by 20 per cent, the circulation of bank notes alone by about 26.5 per cent. At the same time there was an increase of the general level of prices by about 40 per cent. [436] [435]

The adjustments and reactions of the last year which are shown in the first half of the year in an extension of and in the last quarter of the year in a contraction of the credit volume are, however, only one side of a total economic problem. The problem itself is characterized by achieving a balance of payments.

industries of production goods and consumer goods, 434 will gain top importance. 454

During the Marshall Plan period preference was given to short-term investments within the scope of the Austrian Investment Program 1950-52. The aim [457] was to ease the strain on the balance of payments, either by an increase of exports or by a decrease of the import demands, whether by direct or indirect means (for instance, by lower prices for semi-manufactures in industries which depend upon exports). The decisive factor for the selection of investments 652 was the degree of contribution to the balancing of 454 payments within the shortest time possible. This had 457 to be coordinated with the requirements for big projects which had been started or were far advanced. In this way the projects could be completed in a technically and economically sound way. By finishing the started projects, especially in electric energy and in the iron and steel industry, Austria should be enabled to use its rich natural resources (water power, iron ore) as rationally as possible and better than was the case before. In view of the low capacity of the domestic capital market these projects had to be carried out, as far as possible, within the ERP period. In spite of the continuation of big industrial projects, the main tendency of the three-years' program (1950-52) is to give industries and crafts which need export outlets as well as the tourist traffic higher counterpart sums in the last two years than they received in 1948-49. It is self-evident for reasons of export and social policy that the investment plan tries to support, above all, small and medium-sized enterprises of the semi-manufactures category and the crafts.

Development of the most important economic 433 fields is on the average satisfactory. One has to consider, however, that the full results of investment pro- 327 jects, especially the big ones, will not show up until 1954-55. Most impressive has been the development of the iron producing industry. Thus, for instance, in 1950 about 15 times more raw iron and 5 times more raw steel and rolled products were produced than in 1946. The production of the iron producing industry surmounted that of the prewar level in 1945. Compared to 1937, by 1950 the production of raw iron was higher by 128 per cent, that of raw steel by 46 per cent, that of rolled products by 37 per cent, and that of pressed and wrought iron products by as much as 246 per cent. This development continued in 1951. Thus, the production of

457 balancing of the bilateral trade balance sometimes
648 causes considerable trouble. The trade agreement
with Yugoslavia was considerably extended by a credit
439 for goods to the amount of 10 million dollars which
Austria granted to that country; the goods have been almost totally delivered. The goods credit, starting with the year 1952, must be balanced by Yugoslavian counter-deliveries. The new discussions about a trade agreement with Yugoslavia were begun on January 7, 1952.

Among the overseas agreements, those with Argentina and Brazil contain very interesting new elements with regard to the techniques of agreements. Thus, for instance, the listing of the items of Austria's exports to Argentina is extremely detailed. One is certain that the establishment of a permanent Mixed Commission with its seat in Buenos Aires will be a success. It is the Commission's task to control observance of the agreement and the development of the goods traffic. In the agreement with Brazil the new method of balancing payments is most interesting because it deviates from the usual scheme. The establishment of annual accounts for the balancing is most remakable. At the end of the year in which the agreement operates, the amounts will be balanced and replaced by a new annual account for the following period of the agreement. It is equally remarkable for the regulation that a payment of a credit account will be demanded only to the extent in which import licenses actually were issued by the competent authorities after ordinary application procedures.

In the first months of the coming year further agreements with Brazil, Bulgaria, Denmark, Greece, the Netherlands, Norway, Pakistan, and Sweden are to be concluded. Existing agreements are to be renewed or prolonged.

The achievement of the balance of payments
457 is the aim to which all endeavors of the economic
652 policy must be subordinated. As explained in the foregoing, these endeavors contain those measures which are to restrict the inflationary development. The craft segment of the economy under the direction of the Bundeskammer der gewerblichen Wirtschaft started various measures of material and psychological importance toward the end of 1951. Among these measures was price reduction (see Monatsberichte for November 1951 (No. 31): "Die ökonomische Bedeutung der Preissenkungsaktion").

The same aim is to be reached by an increase of the production with regard to quantities, by the balance between the production-goods and consumer-goods industries and by regard to necessities arising out of the export policy. In this connection, not only problems of an increase in productivity were discussed, but also fixed legally-based calculation principles (Eröffnungsbilanzen) were created which make it possible to strike an unassailable balance and to tax sham profits. 652 457

F. Liquidation of Marshall Plan Aid and Future Planning.

The Marshall Plan is drawing to an end; it expires, according to the Foreign Aid Law of 1948, at the end of June 1952. That the American Marshall Plan administration, the ECA in Washington, has ceased functioning and the Mutual Security Administration started its activities as of January 1, 1952, do not alter the basic principles of Austria's economic policy (see Monatsberichte for January 1952: "Vom Marshallplan zum Mutual Security Agency"). [648] 652 457

This is a fast-moving age in which we live. People almost forget that at the bottom of such a complicated program of procedures as the ERP allocations, of the releases from the counterpart funds, from the direct and indirect aid, from the drawing rights, and from the EPU, there was a relatively simple, but nonetheless, grand idea which aimed at the economic and social reconstruction of the war-torn European continent and the cooperation of the European countries in a free and comprehensive European market. Out of the 13 billion dollars supplied in the Reconstruction Program by the American taxpayer for Europe, Austria got 1 billion dollars for the purchase of bread and fodder grains, cotton, oil, and fats, for payment of overseas freight, for the extension and rationalization of its mining and industrial plants, for carrying out the enormous power-plants, for the reconstruction of its traffic network, and for its recreational and tourist traffic establishments. These dollar means, which were represented also in the counterpart accounts, served immediately or mediately in connection with aid deliveries to supplement investments and necessities in various enterprises.

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[439]

This comprehensive aid will cease in the middle of 1952. Austria will be right in stressing the fact that, owing to its far lower level of total economic well-being (as compared to the other ERP countries), the full results of all these measures and investments cannot be forthcoming earlier than 1954-55. Moreover, the further amalgamation of markets in Europe may be expected in connection with increasing competition, by which a reasonable compactness of all new investments within the European Investment Program will be provided. On the other hand, there are a number of most decisive problems of economic policy which must be solved by the beginning of the new fiscal year. The manner of mastering these problems must be of top-ranking importance for the economic and social development of the country. Although the measures taken in the sector of currency and credit policy must not be overestimated in their impact upon stabilizing money values, the increase of production and productivity is a corollary of the organic compactness of the structure of the total economy. In this way single elements may be most fully developed. Bearing this in mind, the appropriate authorities pointed out that the American aid sources, which will be available for only a short time, must be used up in carrying out those economic measures which are considered most important. To coordinate the measures concerning the total economy, the single appropriate ministries have been ordered to make proposals to the Wirtschaftsdirektorium of the government at the earliest possible date. These proposals are expected shortly. They will deal, among other things, with the necessary structural changes of the public budget which take a considerable portion of the gross national product.

Establishment of a balanced budget on the basis of the most economical use of expenditures is one of these. In connection with this, there will take place an organic reform of administration, especially with respect to not burdening the public budget with further expenditures of this kind; strict observance by the appropriate ministries of expenditure limits set in the provisional budget; liquidation of the problems of subsidies. (In relation to the preceding years the budget of 1952 tends to make the government the vehicle of a comprehensive investment policy in view of the decreasing counterpart funds. In this respect the government takes over functions which need most careful consideration from the standpoint of the currency policy as well as that of profitableness. The transfer of such assessments or of such means as may be set aside for these purposes will be one of the most urgent tasks of the economic policy.) The apparently favorable development of incomes must not deceive anyone about the precarious budgetary situation. It will lead necessarily to saving measures in the current year if the stability of the currency is to be achieved, which is the real aim of the economic policy (see following table). 652

PROVISIONAL REVENUES OF PUBLIC TAXATION IN 1951

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Federal Finance Law "Public Taxes" 1951, Chapter 17	Provisional Revenues 1951	Federal Budget 1951 (including supplements)	Difference (including supplements)
	(In Thousands of Schillings)		
Direct Taxes:			
Assessed Income Taxes	1,804,126	1,800,000	+ 4,126
Wage Taxes	1,637,415	1,433,000	+204,415[a]
Corporation Taxes	599,489	532,000	+ 67,489[b]
Property Taxes	66,231	53,600	+ 12,631
Business Licenses	1,000,832	886,000	+114,832[c]
Occupation-cost Contributions	515,043	448,086	+ 66,957[a]
Other Direct Taxes	20,857	17,700	+ 3,157
Total of Direct Taxes	5,643,993	5,170,386	+473,607
Turnover-Tax	2,303,551	2,214,000	+ 89,551[d]
Added Charge to Turnover-Tax	1,152,596	1,107,000	+ 45,596[d]
Customs Duties	305,013	300,000	+ 5,013
Consumer Taxes:			
Tobacco Tax	1,069,513	1,050,000	+ 19,513
Other Consumer Taxes	504,721	490,760	+ 13,961
Total Consumer Taxes	1,574,234	1,540,760	+ 33,474
Duties and Traffic Taxes	886,115	844,400	+ 41,715
Extra Fees, Fines and Damages	67,098	64,000	+ 3,098
TOTAL INCOME	11,932,600	11,240,546	+692,054
Deductions:			
Transfers to Federal Countries and Municipalities	3,563,849	3,492,393	- 71,456[e]
Remaining Net Income	8,368,751	7,748,153	+620,598*
Contributions to the Reconstructions of Dwellings out of the Revenues	383,250	f)	f)
Contributions under the Law of Reconstruction of Dwellings	39,363		

a) A surplus caused by the higher employment and by wage increases under the fifth Wage and Price Agreement. b) Surplus based on carry-over from the preceding year. c) A surplus from back-payments on 1950 assessments. d) Higher turnover. e) In addition, the federal countries will get about 270 million schillings. f) Not assessed in the federal provisional budget, since these amounts flow directly into reconstruction funds for dwellings.

SOURCE: Mitteilungen des Direktoriums der österreichischen Nationalbank, January, 1952.

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*The surplus serves to finance investment expenditures of about 560 million schillings which is not provided for in the Federal Finance Law of 1951 and which are not covered by ECA releases; they also are to cover surplus expenditures of the Federal Railways caused by price increases.

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V. TRANSITION PERIOD (First Half of 1952)

A. The General Picture.

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With the end of the Marshall Plan in the middle of this year, the 17 European ERP countries (among them Austria) will have to face a number of rather difficult decisions in the realm of economic policy. If one totals up the grants of aid which Austria got within the scope of the Economic Cooperation Act of 1949, and of the Foreign Aid Law of April 3, 1948, in the course of the last four years under the title of direct and indirect aid, and under the EPU, the allocated dollar means and goods and services altogether amount to 833 million dollars. Allocations for the single years were:

1948-49 - 270 million dollars
1949-50 - 253 million dollars
1950-51 - 190 million dollars
1951-52 - 120 million dollars

In the schilling balance, the inflowing counter-value to the ERP aid deliveries amounted (in counterpart funds) to 13,243 million schillings with the key-date of February 29, 1952 (according to the statistics of the Austrian Nationalbank). (The principles contained in the agreement and the technical procedures of carrying out these aid programs are quoted in the "bilateral agreement" between the USA and Austria on July 2, 1948.) Out of this amount 775.0 million shillings were used for monetary purposes, 7,275.0 million schillings for financing the Austrian investment programs and 682.3 million schillings for other economic expenditures. The above-mentioned grand total does not contain the counter-value of 478.2 million schillings which was granted in the period from July 1, 1947, to December 31, 1947, under U.S. Relief appropriations (UNRRA, congressional interim funds); they also do not contain such credits as the pound-sterling credit, Export-Import Bank credits, surplus credits and War Assets credits, etc.

The conditions and developments described in the preceding sections for the year 1951 were the result of these financial aids, together with legal and organizational provisions made since 1945 and the attitude of the Austrian people. It should not be forgotten that the economic level of Austria was far lower than that of the other ERP countries. Therefore, in

652 457 restoring Austria's living conditions a number of problems had to be faced which could not be mastered by the country alone. Moreover, an economically smaller country which is about to change the whole economic structure is more sensitive toward the trends on the world market. Its economic and political possibilities are more restricted than those of big continental powers.

The above-mentioned elements, as well as the thoroughgoing changes which have taken place in the traditional pattern of Austria's trade with southeastern Europe, must be borne in mind when judging Austria's total economic situation.

652 Austria used all possibilities under the ERP as intensively as possible. It has replaced its war damages to a great extent. It has rebuilt its industrial and agricultural production within the limits of given conditions. It has again reestablished connections with European and overseas partners and restored the functional capacity of its money and credit system. Hindrances to these developments were: losses in substance, structural time-limited transfers, existing political encumbrances, and, not least, the recent impact of world economic conditions (Far East crisis). These are the reasons that the aims which were generally set forth by the ERP could not all be realized within the time provided in the program. This is a fate which Austria has in common with other ERP countries to varying degrees.

The problems which Austria has to face after the end of the Marshall Plan are the same in all other ERP countries. Although the capacity and the means may be very different, to restrict the loss of the gross national product in a socially bearable way is the main task. Now the top problem becomes the maintenance of a workable and humane order of economy and society. Various factors will play a role, among them are: a synthesis between captivity and freedom, regard for law and natural development, the cooperation of all political and social forces, the cooperation of individual markets within the framework of sound competition and real prices and the like.

000 No specific social and economic order is autonomous; it is only a part of a great network from which it receives specific impulses and on which it

B. Developments in the Field of Trade and Payments.

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If one considers conditions when the laws of economic policy were issued in the spring of 1951, one will see that the discrepancy between the sharply increasing prices of imports and the lagging prices for exports led to a discrepancy between trade balances and currency balances. This was the case despite shortages of the most important raw materials and in spite of a relatively favorable trade balance. In view of this, not only the direct aid was used up in a shorter time, but the "Initial Position" supplied by the EPU was exhausted to a far greater extent in the counter-value of 80 millions. The deficit eventually was covered by additional funds for direct aid in the amount of 18.2 million dollars from EPU and a sum of 10 million dollars from the "Special Resources" of the ECA, awarded in view of the special conditions of Austria. To an extent it was also covered out of the limited reserves of the Austrian Nationalbank.

The later decline of the prices of raw materials made the reduction process slower. This was the case especially with finished goods because of the natural alterations concerned with the various stages of the program. A number of these goods not only reached the maximum prices in the world market, but also the amount in the following period. The total development is reflected in the table of the balance of payment. The figures for 1949 and 1950 are used for comparison.[1]

[Cf. category 116, pp. 132-133--Analyst]

439 457 652 If one examines the structure of these results more closely, one will see immediately that the deficit of the trade balance is by far the biggest burden to the total balance, which is not covered at present by the moderate assets of tourist traffic and the surplus of the transit traffic, plus other receipts from services. This deficit was covered up to the present from ERP funds, which must be replaced in the present year (at least in the second half of the year) by other methods if the import programs are not to be seriously restricted. Any restriction, however, would be most decisive. If reduction of the imports of foodstuffs were undertaken it would result in a grievous lowering of the general standard of living; if one attempts a restriction of raw material imports the plants and factories would have their operation curtailed and partial unemployment would result; if one lowers the import of coal and fuel the general tempo of production will suffer with all the consequences this would have upon the social and economic life of the country.

435 439 It is clear that none of these alternatives would be acceptable since normal development must be to the interest of Austria as well as the whole of Europe. But where is one to find an acceptable solution? An analysis of the figures of foreign trade gives the following picture:

To begin with, the table shows the development of foreign trade in the last two years as compared to the last year before the war. To make the figures of 1937 comparable with those of 1950 and 1951 (which are inflated owing to currency devaluation), the amounts in new schillings were reduced to the previous schillings value by dividing them by the index of wholesale prices (1950: 553 and 1951: 742).

439 435 deterioration of the exchange rate between imports and exports (excluding the far larger import of investment goods). (The investments quota amounted to 6 per cent before the war and rose to 21 per cent of the gross national income in 1951. The comparatively high quota could be maintained, of course, only with the help of ERP funds.) These circumstances also caused difficulties in bigger and economically more powerful states because the real value of foreign aid suffered remarkably by these price developments since the middle of 1950.

439 ● 652 454 Normalization of the trade balance must be achieved in regard to both imports and exports. This will be achieved through:

1) The increasing effect of the investments made within the scope of the Austrian Investment Program 1950-52 and by the revised investment policy. These are short-term investments which will be cheaper and more exportable by raising exports or, indirectly, by cheapening unfinished goods. Among these import saving investments only such investments shall be supported (excluding imports for agriculture) as will be justifiable within the scope of a liberalized foreign trade and in the framework of the international distribution of labor. In spite of the basic continuation of big industrial projects (in view of the end of ERP aid and counterpart funds it will not be possible to afford bigger amounts for big projects which will show their effect only after a long period because of financial and credit policy), the necessary shift in the center of gravity toward the typical export industries will remain a characteristic feature (the export industries are craft enterprises and the foreign tourist traffic, both of them real foreign currency earners). In this connection it should be remarked that part of the investments which have been carried out through public investment programs have not yet matured. Owing to the comparatively late start of real investments in Austria as compared to other ERP countries (1950), they will be fully effective only as late as 1954-55.

439 2) Exhausting all possibilities of the existing and future opportunities in the trade policy. Thus, for instance, the new German liberalization together with the new trade agreement opens the German export area to Austrian production so that, with an adequate support, a big part of the Austrian production capacity will be fully utilized. Also Belgium lowered the

restrictions on its imports in order to abolish its accounts at the EPU. There are no restrictions to the imports into Switzerland. France recently has promised to facilitate imports of Austrian goods by abolishing its assets in the trade account. Further potentialities in exports may be found in the Near East. Thus, for instance, Turkey has concluded a "classic trade and shipping agreement" with West Germany as recently as February 16, 1952, under which German participation in the industrialization of Turkey has been secured. 439

3)[1] An intensive and extensive increase of agricultural production (a step by step decrease in the import of bread, grains and sugar to the prewar level). In doing this the fact was taken into account that in 1938 almost 80 per cent of the normal consumption of wheat and rye and 98 per cent of the domestic consumption of sugar had been covered by domestic harvests. This aim can be reached in view of the more advanced techniques of fertilizing and in view of investments for agriculture. (In the Long-Term Program for 1952 provision is made for a cultivation area for bread grains of 576,000 hectare. This could not be attained because of price policy consideration. It may be possible to carry out the necessary extensions of production by the projected shift in subsidizing the proposed prices in agriculture and by stopping migration from rural areas. At present a law is under discussion pertaining to this.) [241] [652]

4) Categorizing the import goods on the basis of their importance to life; in this case the imports of sugar may be restricted and the import of colonial wares may be revised.

5) An increase of the productivity of plants in order to lower production costs and to build up a firm level of real wages.

6) A new calculation of costs as favored by lower prices of raw materials.

There is no doubt that none of these programs can actually be carried out to full extent since the economy is still in a state of flux and outside influences make current adjustments necessary. But it is most important to find a general line as a center of focus for necessary measures. It will be possible, with the continuous consolidation in certain fields, 000

[1] [Normalization of the trade balance in regard to both imports and exports will be achieved through: --Analyst]

C. Reconstruction Planning.

Reconstruction of the economic policy means 457 a gradual overcoming of the crisis of the balance of payments and the securing of internal and external balance. Such a policy will create conditions which can provide a free convertibility of currencies and the real integration of the single economies. (This is among the aims of the Marshall Plan.) (The EPU is of special value. Due to expire on June 30, 1952, it will be prolonged as an instrument of overcoming crises in the balance of payments which arose as a consequence of the Korean crisis in a number of countries. Without this aid the difficulties could not have been overcome so easily. At present the problem of the quotas, of the brake on money, and of establishing currency rates is an open one, since the current rates no longer correspond to purchasing power.) However, the aim of abolishing the restrictions on foreign currencies and the free convertibility of foreign currencies cannot be achieved within a short time. It will be necessary to establish manipulation funds which serve toward overcoming short-term shifts and creating certain structural correctives.

The maintenance of financial stability as 652 a means of guaranteeing the functioning of a currency is connected with the status of the governmental balance (excluding the calculation of costs in an economy). The frame of figures for the single items (titles, chapters) of the Finance Law (Budget) must be reduced if a surplus of expenditures arises which is not covered by taxes or other possibilities (at present counterpart funds); in this way a balance can be achieved between incomes and expenditures if the foundations of a stable currency are not to be shaken by the budget. If one tries to avoid these conditions, one has to set up a system of savings on the one hand, and to take measures for the reconstruction of a capital market of high capacity, on the other. Like other countries, Austria also will have to endeavor to [454] transfer gradually a big part of its investment demands from bank credits or counterpart credits to the capital market. This development must be considered the soundest form of long-term financing. The neces- 652 sary revision of the investments policy caused by 457 reasons of the total economy has been dealt with in connection with the balancing of the balance of payments. (This is connected with the reduction of

457 foreign aid. While in 1951 about 200 million 652 dollars was available, this sum will be approximately 100 million dollars for 1952; the schilling counter value to foreign aid, therefore, will decline from 4.4 billion schillings to presumably 2.1 [435] billion schillings. Moreover, as the prices at the end of 1951 were higher by 12 per cent than the average for 1951, there will be about 2.7 billion schillings less out of foreign aid funds for investments than in 1951.) In addition, the budget is burdened by a number of price supports, the abolition of which will not be possible to a full extent under the present conditions. Immediate reactions on the prices for foodstuffs and new rises in wages would be the consequence. The policy of supporting prices must not be omitted when the system of subsidies is altered. [Since the fifth Wage and Price Agreement of July 1951 the existing method of financing important consumption goods was taken over from counterpart funds by the budget. Thus, there are still considerable budgetary expenditures under this title. They amount per year to about 40 million schillings for the support of domestic bread-grain prices, 366.5 million schillings for foreign bread-grains, 555.75 million schillings for fodder, 110 million schillings for fertilizers and 135 million schillings for raw materials of fats needed by the margarine industry. The term for supporting the prices of domestic bread grains (15 groschen per kilo) already has expired. The remaining subsidies will expire with the end of June. Discussions with the aim of continuing these subsidies are not yet finished. They tend, above all, to stimulate production by adequate prices.]

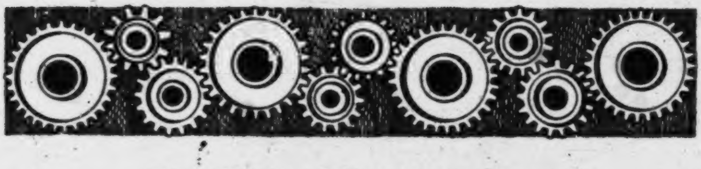
652 Already in the preceding year the stabili- [453] zation of the money value was prepared to a considerable extent. Measures of this type were: the introduction of the quantitative and qualitative control of credits; the increase of the bank rate from 3 1/2 [435] per cent to 5 per cent; and the lowering of prices, started by private industry of its own volition--this latter measure applying to about 80 categories of goods. This materially and psychologically important premise of an organic policy for stabilization must be supplemented by an adequate budgetary policy. It cannot be denied that the measures which were taken in the preceding year had already brought about significant results. 454 The savings increased considerably in 652 the first two months of the present year; they rose from 2,275.1 million schillings (checking account deposits 8,898.7 million) to 2,619.5 million schillings

(checking account deposits:8,731.9 million schillings) from December 1951 until the end of February 1952. This development must not only be evaluated absolutely, but also as a positive symptom. 652 [454]

Single measures require careful coordination as they effect a number of economic laws (foreign trade law, raw materials allocation law, price control regulations, etc.) and also, in the final analysis, international developments. (The above mentioned laws will expire on June 30, 1952.) They laid the principles for various control measures.

The decisions taken by the OEEC (of which Austria is a member) resulted in a number of recommendations to the member states; the observance of these will be of essential importance for an eventual continuation of foreign aid to single countries. They not only provide for the extension of European production by 25 per cent in the next five years but stress especially the maintenance of "financial stability." This means an increase of productivity, the balancing of the dollar balances and the expanding of agricultural potentialities. How important the establishment of a financial balance is felt to be the carrying out of the total programs is best seen by the decision of the Committee of Ministers to examine the internal financial condition of the single countries by a special committee of experts. These periodic evaluations of the total conditions in the United States and in Canada as well as in the European countries are to form the basis for adjusting the common economic policy. It is expected that the American and Canadian governments will accept the decisions of this committee; thus, for the first time the OEEC extends its activities, which were up to now restricted to western Europe, to North America, thereby introducing a new era of international cooperation. 000

The Marshall Plan is about to end. We already can see the contours of the principles of a new economic cooperation. While the ERP was based mainly on grants (gratis aid deliveries) to give European production a start, there will be in this second stage a restricted convertibility of foreign currencies through the medium of the EPU. In its third stage, trade policy liberalization will be approached with the aim of a unified European market. Thus, in a fourth stage, the principle of an international credit standing will again be achieved in



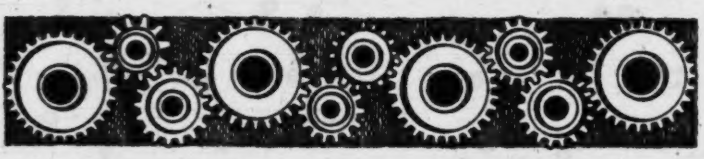
THE AUSTRIAN ECONOMY AFTER 1918.

439 The disintegration of the Dual Monarchy was immediately followed by severe economic disturbances. These were by no means small, even in comparison with the position after 1945. The heart of Austria, with its highly developed trade, was suddenly completely cut off from its former inland sources of raw products and markets. The oilfields of Galicia, like the important coal deposits in the lands of Bohemia, Moravia and Silesia, were lost, having fallen to the Succession States, and the loss of the agricultural surplus areas produced a threat of famine.

433 439 The Succession States—Czechoslovakia, Yugoslavia and Hungary—each attempted to build up a national economy, to balance its economic structure and to make itself as far as possible independent of raw and semi-manufactured materials and finished goods. A division of labour which had grown during decades into one complete organism was thus broken up, to the detriment of all peoples living within this territory. For Austria this meant that an intensive system of internal trading suddenly turned into one of foreign trade, where great difficulties had to be overcome. At first even inter-state transport communications were further complicated by barriers created by the Succession States.

728 433 458 The nadir of those days was reached with the signing of the Treaty of Saint-Germain, which revealed the full extent of the catastrophe. Austria's tragic path at that time was blocked by a series of apparently insurmountable obstacles to the procuring of essential foodstuffs, coal and raw materials. Inflation to an extent never before seen set in and led to a selling-out of national assets. The unfavourable basis of the rump economic structure as well as the instability of Austria's relations with foreign countries seemed to doom all her efforts to failure.

648 457 ●652 After difficult but very skilfully conducted inter-state negotiations, the governments of Czechoslovakia, France and Italy were persuaded to advance credits to the Austrian Republic. The Allied Powers convinced themselves that Austria, if help came from the League of Nations, would exert her own energies to the utmost in order to put her finances and trade on a sound footing. The will of the Austrian Government to stabilise the budget, demonstrated by the previous abolition of food subsidies (in December 1921), did much to assist these efforts. The Financial Recovery Plan which was signed at Geneva on October 4th, 1922, proved the turning



point. The banknote printing presses were stopped and national administration 652
put on a firm footing through drastic measures of economy.

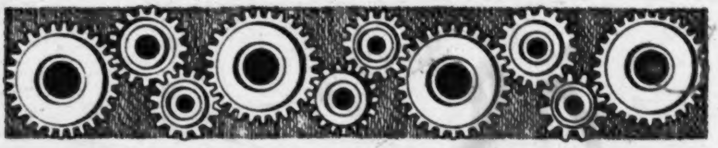
However praiseworthy the efforts which led to a balancing of the budget, the 433
difficulties which still confronted Austrian trade remained considerable. Austria's
productive capacity was far greater than its markets (which had shrunk to an eighth 439
of their former size) could possibly absorb. As a great part of Austrian industry
was devoted to manufacture, the country was dependent on the import of foreign
raw materials (textile, metal and chemical raw materials, hides, furs etc.) and
auxiliary materials (above all coal). On the other hand, the social services (unem- [745]
ployment pay, emergency aid, health insurance etc.) which were more extensive
than in all the other Danube States made the costs of Austrian production com-
paratively high.

All Austria's efforts were directed towards export. In 1931, 25 per cent of all
inland output was exported, 45 per cent of this being industrial production. If
one works out the value of goods exported per head of population and compares it
with the exports from other countries it will be seen that in 1937 Austria was ahead of
Germany, France and the U. S. A., the comparative figures being 39 : 36 : 34 : 28.

As an industrial country, Austria was forced through the ceding of her agricultural
surplus territories to rely on the import of foreign foodstuffs. These imports had 457
to be paid for by the export of industrial goods, as had also the raw and auxiliary
materials.

According to the balance of payment figures for the year 1934, the exchange of
commodities, which amounted to 63 per cent of all listed inter-state payments
was the most important item of Austria's inter-state economic transactions. Second
in importance were payments under the heading of invisible imports and exports
(balance of services), which amounted to 23 per cent of the total payments. Austria
made a profit on these transactions of about 200 million schillings. That proportion
of the goods imported which could not be covered by exports alone was therefore
paid for by services in the strictest sense of the word. Of these services, the tourist
trade and transit trade were the most important.

Through the loss of former markets, Austria was forced to form new export connect- 439
ions ~~in~~ the north, south, west and overseas. As the goods which had formerly been
exported to the east and south-east were not automatically marketable in these



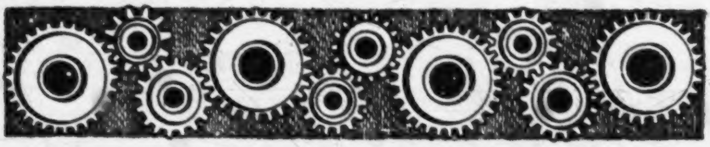
439 territories, Austrian producers were forced to adapt their output to these new conditions. This was of course only possible through the painful process of making certain changes in the economic structure.

439 The main bases of Austrian trade, as vital then as now, were:

135 a) the abundance of forests which ensure timber for export as well as for the furniture-making and paper industries.
b) The deposits of iron ore which form the basis of iron and steel production and the iron-working industry.
c) The wealth of water in the alpine districts, constituting an extensive source of power which is being increasingly exported in addition to supplying Austrian industry with current.
d) The recently-discovered inland oil fields (at Zistersdorf).
e) The fashion and luxury-article industry, an export factor of increasing importance.
f) The credit balance of services (tourist trade and transit trade).

433 It is one of the characteristics of industrial-commercial production that
Austria, as a result of her comparative lack of capital, should be at a disadvantage
whenever it is a question of mass production. But wherever there is a
chance for painstaking finishing, special skill or workmanship, as well as good
taste and original ideas on the part of the producer to play a rôle, the prospects
of success are excellent. It is not only, as is often mistakenly imagined, the fashion
and luxury industries to which this applies, but all the many branches of manufacturing
472 where it is the quality of the work which counts. These factors are
strengthened by the prevalence of small concerns in Austria. Factories with up
to 100 employees amount to 75 per cent of the total, those with 100 to 1000
employees to a little over 20 per cent, and the factories employing over 1000
persons to only 4·4 per cent.

● 652 After the stabilisation of the currency, production and export trade showed
433 a favourable increase between the years 1923 and 1929. Production rose during
this time by nearly one third. Then followed the general slump, especially
458 serious for Austria on account of her great dependence on export. The development
which had begun so hopefully was now brought to a standstill through the
external crisis.



bank 34 and the Wiener Bankverein 29 branches outside the territory of present-day Austria.

Adapting the Austrian credit system to the conditions and needs of the Austrian Republic actually took more than one and a half decades. It was not until the year 1934 that this process could be considered as completed with the fusion of the Creditanstalt and the Bankverein. The enormous difficulties involved were still further complicated by the fact that the change coincided in point of time with far-reaching international crises of trade and finance, so that certain grave reactions on the Austrian economy were unavoidable. Notwithstanding this, the latter and its credit system proved themselves strong and vital enough to survive those troubled times and to prepare the ground for the favourable development of Austrian trade in general and the Austrian banking system in particular.

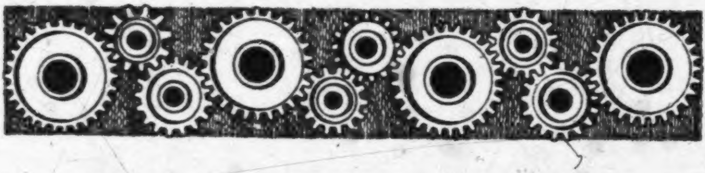
This development was broken off in abrupt and catastrophic fashion through the establishment of the National Socialist regime and the outbreak of the war which soon followed. Although the end of the war restored Austrian independence—in theory, at least—it left behind chaotic conditions—both figuratively and literally a heap of ruins.

In the realm of finance, the first attempts at reconstruction had to be directed towards the re-establishment of the means of payment, a solid national currency being of course a primary condition for the normal

system in foreign trade became the guiding 439 principle, the narrowing down of inter-state 648 trade relations being shortly afterwards still more strongly emphasized through currency restrictions and the clearing agreements connected herewith. The currency devaluations of the 457 gold-standard countries towards the end of the year 1936 created new difficulties for Austrian 435 foreign trade. As devaluation was out of the question and an export subsidy was not considered to be a suitable political-economic instrument, the only remaining alternative was to lower the costs of production. The difficulties of such a course have been proved by practical experience in all countries, as the questions of fixed prices and wages combine to form an insurmountable obstacle to such a development.

Nevertheless Austria still succeeded in linking 458 up with the world boom which began in 1935—1936. In the year 1937 her figures of production 457 were 6 per cent higher than those of the last characteristic boom year of 1929. The tourist trade developed exceptionally favourably, despite the "1000 mark limit" imposed by Germany, and the volume of foreign trade was constantly on the increase.

In view of the heavy burden of debt which 652 the country had to assume after 1918, of the increasingly protectionist tendencies throughout the whole of Europe, especially among Austria's immediate neighbours and considering the severe and long-continued world trade depression, as well as the crises of international currency,



652 the budget of Austrian administration at the end of the First Republic must be considered to have been thoroughly satisfactory. The often apparently insurmountable difficulties which confronted economic policy in those days were dealt with in such a manner that the state of Austrian trade in 1937, judged by production, income and consumption, could in every way bear comparison with that of other countries. During the whole of this period the national budget was balanced and the currency was considered to be one of the most stable in Europe. The Austrian Schilling was known in general as the "Alpendollar" on account of its stability.

653 The administration of the Federal Government as well as that of the various provincial governments was developed on the basis of a balanced economy as a framework of a general working programme. In the first place road-building was started, improvements carried out and private building activity encouraged to make investments. The number of unemployed ceased to increase and even showed a slight tendency to fall from season to season through large-scale recruiting of workers for 745 the land. The actual unemployed were able to draw on unemployment insurance funds. Weekly payments of about 28 Schillings per person meant that even during those difficult years nobody had to suffer hunger. These social measures, passed during the first ten years of the Republic, still remain in force for the

functioning of the Austrian credit system. This aim was principally served by the Bank Reopening Law and the Banknote Transition Law of July 1945. These were followed at the end of 1945 by the Schilling Law which restored the Austrian Schilling in place of the Reichsmark currency and attempted to combat symptoms of inflation (which in part had appeared before the fall of the Nazi Government) by the blocking of accounts. Two years later the Schilling Law was reinforced by the Currency Reform Law which declared forfeit the greater part of the frozen assets which had been created by the Schilling Law and changed the remaining accounts (then only partly free) into liabilities of the National Treasury. The stabilisation of the currency at which the Currency Reform Law aimed has been successful, and the Schilling has once again become a real standard of value as a result of this measure.

Apart from the prominent part they played in carrying through the currency measures, the credit institutions were naturally chiefly concerned with providing a basis for their primary economic function, that of collecting superfluous money and directing it to the most useful channels of general trade.

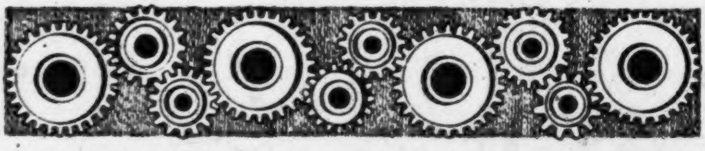
Progress made in both these directions, and future prospects are by no means inconsiderable. There is an obvious return of confidence in the banks. This is shown by the slow but steady increase in deposits, encouraged by re-adoption of the principle of the secrecy of bank transactions and by *war on the country, then the occupation of Austria and its division into zones, with ensuing damage to trade, the devaluation of the compulsorily accepted German state bonds, with the complicated problem of "German property", and finally the disappearance of the basis for Austrian insurance in a number of neighbouring states.*

Just as before, the Austrian insurance organizations attach the utmost importance to international connections. These have always been of the best and it was luckily possible to resume them quickly after the end of the war and the restoration of national independence. This explains why in Austria—in contrast to other European countries—there has never been any difficulty over coverage even during the first post-war hardships, rearrangement of reciprocal insurance necessary after separation from Germany being carried out smoothly and without friction. Austrian insurance firms are untiring in their efforts to consolidate their position as far as possible in the international re-insurance market. The Austrian National Bank appreciates the desirability of this and has facilitated dealings in foreign exchange within the framework of its limited powers.

Further development of life insurance business, however, will depend on problems connected with the devaluation

readjustment of Austrian commerce which had 439 been forcibly interrupted in the year 1938. The former successes of Austrian commercial policy justify the assumption that this goal will be reached in the not too distant future. It may also be assumed that the experience which the whole world had of the results of exaggerated protection just before 1938 will have created a more favourable attitude towards free trade, thus ensuring that Austria's efforts to increase her foreign trade will fall on more fruitful soil than before. The possibilities of internal trade in Austria are not sufficient to give a nationalist economic policy a chance of success. Foreign trade will always remain a decisive factor for the Austrian economy and thus all other commercial measures can only be considered in the light of its demands and of its development.

The progress made since 1945 has shown that 656 Austrian economic policy is not treading outworn paths, but is adequately adapting itself to the needs of the moment. Government intervention in questions of price control, rationing, foreign trade etc., which proved necessary in the year 1945 owing to the situation at that time was gradually been dropped as soon as this became possible. Financial conditions, 652 which were in a state of complete disorder, have been so far straightened out that money is once again able to fulfil its function in commerce as a means of exchange and as a standard of values. The path which has been followed from the "Schalter-

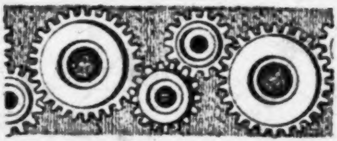


652 gesetz" (Bank Re-opening Law) to the Schilling Law, the Wage-Price Agreement and the Currency Reform Law is a perfect example of wise and experienced currency regulation worthy to be recorded in history alongside earlier Austrian success in this field, the best-known of which is the credit and currency policy of the old Austrian-Hungarian Bank.

439 A comparison of the present state of Austrian trade with the position in 1945 must tend, in view of the many obstacles with which reconstruction had to contend even though there was generous foreign aid, to arouse confidence in the commercial future of Austria and finally banish the legend of her non-liability to the realm of fable.

of the capital of existing businesses and other questions of the money and capital markets. At the moment interest is centred chiefly on the coverage of life insurance risks. The improvement in living conditions for the Austrian people is already beginning to have a favourable effect on new business in life insurance, although the social insurance system which is very highly developed in Austria leaves less margin for private insurance than in other countries.

Economy, perseverance and optimism characterise the Austrian insurance system, which is in itself a barometer of Austrian trade.



458 the disruption of production and foreign trade caused a
435 continued and increasing shortage of goods. Though rationing of essentials was not immediately abolished, wartime controls were relaxed and the rise in prices was accelerated. This rise in prices, together with the dearth of so many industrial goods, induced many peasants to resort to a system of barter. This further diminished the flow of goods to the market, and with it the value of money.

At the same time, the socialist revolutions in neighbouring Hungary and Bavaria and the revolutionary tendencies among the Austrian people led to a mass transfer of capital to other countries. The various controls of the post-war period, designed to prevent capital movements and to preserve the precious foreign exchange for essential imports, were largely ineffective and the conspiracy against the Crown (the Austrian currency unit at that time) continued openly and in the numerous black markets. Consequently, the dollar exchange which—owing to the blockade and the practical cessation of international trade—had risen from 4·95 Crowns in July, 1914, to only 14·33 Crowns in November, 1918, began to soar rapidly (see the table on p. 25). With the dependence on imported raw materials and foodstuffs this quickly led to
● 652 further price increases. The governments of the day should of course have adopted drastic measures to keep
458 the inflationary pressure in check. In fact, their policy
435 intensified the inflation. Expenditure continued to run at a high level. Food subsidies, for instance, had to be continued in view of the rise in food prices. These subsidies were often quite considerable; in December, 1921, for instance, they accounted for more than half the budget deficit. Then there was the large item of civil service salaries. Not only did Vienna inherit the central adminis-

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

trative staff of a 50 million empire—and a very bureaucratic 652 empire at that—but this staff had been considerably 458 swollen in war time and was further enlarged by the absorption of all those Austrian officials who after the war 435 returned from their posts in the "Succession States". To reduce this number of officials was one of the problems of readjustment which Austria had to solve; and in fact a drastic reduction was carried out later. But little was done in the first post-war period and salaries—inadequate as they were with the increasing depreciation of the Crown—were a heavy drag on the Exchequer. In other lines, too, expenditure continued to run in an unplanned and uncoordinated manner. This was perhaps an effect as much as a cause of the inflation; but it was also symptomatic of the Government's fatalism; for they considered all this as the natural expression of Austria's doom.

The Government's weakness also showed itself on the 458 revenue side. Expenditure, however carefully planned, is bound to be high in any post-war period. The social and 435 economic upheavals of modern wars call for a high degree 651 of State control and interference so as to facilitate an orderly return to a peace-time economy. But if inflation is to be avoided this high level of expenditure must be matched by an equally high level of revenue—at any rate under conditions of more or less full employment. This, however, the governments completely failed to achieve. The years 1919 to 1922 were years of continuous budget deficits, as is shown by the table on page 24.

The failure of revenue to come anywhere near expenditure was due to a number of reasons. First, the rapid depreciation of the crown implied that every time lag between assessment and payment caused a reduction in the real value of the tax. This opened the way to tax evasion on a grand scale; for even the incidence of stiffer nominal rates

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Budgets	Receipts	Expenditure (Mill. of Crowns)	Deficit	Deficit in per cent of Expenditure
Jan. 1– June 30, 1919	1,339	4,034	2,704	67
July 1, 1919– June 30, 1920	6,295	16,873	10,579	63
July 1, 1920– June 30, 1921	29,483	70,601	41,117	58
July 1– Dec. 31, 1921	24,075	49,496	25,421	51
Jan. 1– Dec. 31, 1922	209,763	347,533	137,770	40

651 of taxation could be avoided by simply delaying payment
435 for a little while. It was not until much later that the
Government introduced "tax units" of a stable value to
458 put a stop to this. Secondly, stronger measures, such as a capital levy and a compulsory loan, which were intended to bring some relief in this extraordinary emergency, were greatly watered down through endless delay and the strong pressure from vested interest. By the time they were finally introduced they were in fact quite ineffective. Thirdly, the Government was slow in adjusting the prices of State-owned enterprises to the rapidly rising price level, and considerable losses were incurred as a result.

458 Expenditure thus rose with rising prices while receipts
lagged behind. The gap had to be filled. A loan was out
435 of the question for nobody was willing to lend money which would probably be worthless by the time of repayment. So the printing press, which had proved a convenient servant in war-time, had to continue its work. More and more notes were printed, prices went up and with it the State's expenditure and deficit. The vicious spiral was set in motion.

The following table indicates the course of the inflation.

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the German Steel Trust. We shall see later what ominous 458
political and economic consequences flowed from this 471
transfer of control.

Summing up, it may be said that the years of inflation brought a marked revival in the sphere of production and foreign trade; but that little was accomplished in the way of urgently needed structural adjustment.

One further result of the inflation should be mentioned. 458
In Austria, as elsewhere, the internal National Debt was
practically wiped out. No doubt this put a heavy burden 652
on some classes of the population, particularly the small saver. No doubt, the inflation involved a heavier burden of external debt than would otherwise have been the case. But the disappearance of the National Debt undoubtedly relieves a government of some headaches when it comes to the point of drawing up a budget. And to balance the budget was one of the main tasks before the Government if the inflation was to be brought to an end.

THE STABILIZATION OF THE CURRENCY

We have seen that the Austrian Government pinned all 457
its hopes of overcoming the monetary chaos on foreign 652
help. A foreign loan would both help to balance the Government's budget and to stabilize the foreign exchange rate, the barometer of the country's confidence in the Crown.

Negotiations for such a loan had started as early as 1920; but to secure a loan was by no means a simple matter. The allied governments expected to receive reparations from Austria, not to make loans to her. They pointed to the relief credits they had already granted (but which had of course been used up for "unproductive" relief) and were unwilling to make any further advances. Private investors, on the other hand, were unwilling to

457 652 lend money to a country which constantly stressed the lack of a sound basis for its economic future. Only first-class guarantees would induce capital to come to Austria. The Austrian Government, therefore, proposed to guarantee such a loan by pledging some of its major sources of revenue (customs, tobacco monopoly, State forests) to its service. Unfortunately, however, all properties and revenues of the Austrian State had already been charged with guaranteeing reparations, occupation costs, and relief credits. Negotiations were therefore begun with a view to securing the agreement of all the states concerned (eighteen in number), to raise their mortgage on Austrian assets. By the time the necessary agreement had been secured—which was not until about a year later—the position had deteriorated to such an extent that the original financial plan was no longer adequate.

Finally the League of Nations decided to step in. In October, 1922, the famous Geneva Protocols were signed. The first Protocol, signed by Great Britain, France, Italy, Czechoslovakia, and Austria, re-affirmed the political and economic independence and territorial integrity of Austria. In the second Protocol the British, French, Italian, and Czechoslovak governments each guaranteed a portion of an Austrian loan of 650 million gold Crowns. In the third Protocol the Austrian Government promised to put its own house in order, to balance its budget, to stop borrowing from the Bank of issue, and to create a new and independant bank of issue, the Austrian National Bank.

The Geneva Protocols had a remarkable effect on the monetary situation. The mere fact that promising negotiations were in progress led to a return of confidence and put a stop to the panic flight from the Crown. The dollar exchange rate reached its highest point in August, 1922, when it stood at 83,600 Crowns. After that there was a

slight fall. Retail prices ceased to rise in September, 1922; 457
after that they merely fluctuated in the normal way. The return of confidence in the currency enabled the Govern- 652
ment to raise loans from the public once more. Between November, 1922, and January, 1923 (long before the raising of the foreign loans), 80 million gold Crowns were subscribed in domestic loans. In the summer of 1923—after some short-term credits had been granted to Austria—the guaranteed long-term loan was at last launched in the various Allied and neutral countries. The subscription was a complete success. The reorganization of Austria's finances could at last be taken in hand. Careful economy, the cessation of borrowing from the bank of issue, and the increased yield from taxation all helped to reduce the deficit.

In November, 1923, the budget for the first time showed a surplus. The operation had been clearly successful. At that time most of the other European countries, and particularly Germany, were in the throes of inflationary catastrophes which surpassed anything that had happened in Austria. In 1923 and 1924 the Austrian Crown[1] was indeed one of the most stable currencies in Europe; a fact which earned it the nickname of the "Alpine dollar". The way was now open for the more fundamental tasks of readjustment and reconstruction. Nevertheless, a more courageous policy might have achieved the same results without the aid of so much foreign borrowing, whose burden could not help but make itself unpleasantly felt at a later stage.

[1] [Cf. Category III, p. 35. --Analyst]

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IMPORTS AND EXPORTS

Value in national currencies (000,000's omitted)

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		1929	1930	1931	1932	1933	1934
Austria	Imp.	3,263	2,699	2,161	1,384	1,148	1,153
	Exp.	2,189	1,851	1,291	764	775	857
Czecho-slovakia	Imp.	19,942	15,680	11,725	7,459	5,799	6,349
	Exp.	20,485	17,460	13,106	7,329	5,843	7,267
United Kingdom	Imp.	1,111	957	797	651	626	680
	Exp.	729	571	391	365	368	396
U.S.A.	Imp.	4,339	3,114	2,089	1,325	1,433	1,636
	Exp.	5,157	3,781	2,378	1,576	1,647	2,100
Germany	Imp.	13,447	10,393	6,727	4,666	4,204	4,451
	Exp.	13,483	12,036	9,599	5,739	4,871	4,167

These figures clearly demonstrate the extent and the universality of the depression.

The decline in foreign trade, which was everywhere far more severe than the decline in production, affected Austria gravely. The increasing adoption of "beggar-my-neighbour" policies greatly restricted outlets for Austria's manufactured goods. Tariffs rose to incredible heights in central and south-eastern Europe; quotas, import prohibitions, and a hundred and one forms of administrative protectionism blocked the flow of goods.

Austria was compelled, in turn, to resort to increasing 652 protectionism and her agriculture, in particular, was increasingly cut off from the world market. Home food 433 prices were, in fact, maintained much more than prices of manufactured goods, and this resulted in an increase in agricultural production, contrasting strangely with the persistent decline in industrial output.

The workers, of course, had now to pay relatively higher 458 prices for their essential needs. On the other hand, the 435 stability and purchasing power of another important

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to meet its obligations without liquidating the whole 453 concern. It appeared later that its outstanding obligations were actually considerably in excess of its own capital, which then consisted of 125 million schillings, together with a reserve fund of 40 million schillings.

The bare announcement of these facts had staggering effects. It set the ball rolling which knocked over the financial and monetary stability not merely of Austria but of the whole world. For the Credit-Anstalt was not just *some* Austrian bank. It was closely integrated into the world's financial structure. Its foreign debts amounted to $76 million of which 27 million were due to Great Britain and 24 million to the United States. Certain banks in other countries which had considerable interests in the Credit-Anstalt were directly affected, and so the crisis spread from the Credit-Anstalt to the German Darmstaedter and National Bank and to the Dutch Amstel Bank.

There were other less direct but even more important consequences. The failure of the Credit-Anstalt did not just mean the freezing of a number of credits; it was a symptom of the serious deterioration of the world's financial and economic stability. Loss of confidence, nervous and rapid shifts of capital, extreme economic nationalism in monetary matters, which had been raising their heads here and there, now came fully out into the open. A line is, in fact, discernible which leads from the collapse of the Credit-Anstalt to the suspension of the Gold Standard in Great Britain in September, 1931.[5] 1/^

Let us now return to the Austrian scene. When the 453
position of the Credit-Anstalt became known it was clear
that such an important institution could not be allowed to 652●
go bankrupt. Too large a sector of Austria's industry was dependent on the Credit-Anstalt for fixed and working

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1/^ [CA CATEGORY 116, p. 63 --ANALYST]

453 capital; the country's foreign credit was too closely bound
up with the solvency of this bank. The Government
652 therefore stepped in within four days and, together with
the Austrian National Bank and the House of Rothschild,
assumed responsibility for its financial reconstruction. A
number of measures followed in quick succession. The
government guaranteed first the foreign, and later also the
domestic deposits of the Credit-Anstalt. A committee was
set up in London to represent the interests of foreign
creditors. An agreement was signed providing that 500
million schillings of foreign short-term credits were not
to be withdrawn for two years. Strict economies were
introduced. Salaries and pensions were heavily cut by
453 decree; many of the bank's employees were sacked. The
652 problem of an overgrown banking system was at last
being solved; but in a way which created much misery and
444 dislocation. No doubt, the Credit-Anstalt had somehow
to be saved. But the Government was too concerned
about the profitability of the concern and the interests of
the shareholders. Its measures contributed to the already
serious structural unemployment among the middle
classes and served to prolong the depression. Moreover,
the Government missed an unique opportunity of using
its newly gained influence over the main credit institution
to re-organize and direct the country's industrial structure
in the national interest.

453 But the collapse of the Credit-Anstalt did not only call
for far-reaching measures for the restoration of that
436 institution. It also had grave repercussions on Austria's
652 monetary system. The National Bank had been forced to
457 re-discount a large number of Credit-Anstalt bills, and
the note circulation began to swell. At the same time, in
spite of the Government's speedy assistance and guarantee,
confidence had been shaken and funds were withdrawn

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from the Credit-Anstalt on a large scale. Particularly 463
foreign short-term credits, which had already trickled out- 436
wards ever since 1929, were now called in rapidly. About
1,000 million schillings were withdrawn from Austria 652
within a year.

.This put a severe strain on the foreign exchange reserves of the National Bank. 457 The stability of the currency, which had rested on a firm basis since the inflation had come to an end, was threatened once again.[6][1] Support was urgently needed and, for the second time in its short history, the Austrian Republic had to appeal for foreign help. Some welcome, but sadly inadequate, help was rendered in June, 1931, in the shape of a 150 million schillings credit from the Bank of England and 100 million schillings from the Bank for International Settlements. This eased the strain for the moment, but soon there was a renewed decline in foreign exchange reserves. Germany and Hungary suspended their foreign payments. This meant not only a loss of expected income but it also undermined confidence still further and a flight of capital set in which threw the foreign exchange market completely out of gear.

On August 7th, 1931, the Austrian Government asked 652
the League of Nations for a 250 million schillings loan.
As in 1922, this loan was ultimately granted. 457 But again the help did not come soon enough. After prolonged negotiations and investigations the Financial Committee of the League of Nations stressed in March, 1932, that the financial strain of Austria, Hungary, Greece, Bulgaria, etc., was mainly due to world causes over which they had very little control, and that there was an urgent need for international financial help. In the summer of 1933, two years after the first appeal, the loan was finally launched.

But in the meantime the position had gone from bad

[1] [Cf. CATEGORY 116, pp. 63-64--ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

652 457 to worse. Action became imperative. The demand for foreign exchange increased steadily and an unofficial premium on foreign currencies developed. On October 9th, 1931, after the foreign exchange reserves of the National Bank had fallen from 856 million schillings on May 7th to 359 million schillings, exchange control was finally introduced to stop any further loss of reserves. The same measure had already been introduced by Germany, Denmark, Hungary, Greece, Czechoslovakia, and Yugoslavia. It soon spread to most of the smaller nations in Europe and South America. Further measures—above all import quotas and clearing agreements—followed for the purpose of husbanding the scarce foreign exchange reserves.

In this way the emergency was temporarily met, the further flight of capital reduced, and the "devisen" resources preserved for essential imports of raw materials and foodstuffs. But exchange control created problems of its own. Prices in Austria had tended to be higher than world prices since mid-1931 so that now, with the value of the schilling artificially maintained, imports were encouraged while exporters found it increasingly difficult to compete in foreign markets. In spite of the controls the reserves of the National Bank therefore continued to decline in 1932, and in June of that year the transfer on foreign debts had to be suspended for almost a year.

The Austrian schilling had to be brought into line with world prices. But the Government was reluctant to devalue the currency for two reasons. First, the Austrian public was still very much "inflation-minded", and considered devaluation as equivalent to inflation. Devaluation might thus raise political difficulties. Secondly, devaluation would raise the burden of the foreign debt.

These considerations, however, lost much of their force

9: Rothschild E-4, 5 (no date) 1947 ~~EK1~~ Austria EK1

as one country after another went off the gold standard 652
and devalued its currency. After a period of strict exchange 457
control, lasting from October, 1931, to the middle of 1932, the Government relaxed some of its regulations. "Private clearing" was admitted, first in a restricted field, from which it quickly expanded until it covered the great majority of Austria's imports and exports. The private clearing system consisted in permitting exporters to sell their foreign exchange directly to importers instead of requiring them to hand it over to the National Bank at the official exchange rate. In these private clearing dealings the schilling was actually devalued and found its equilibrium level so that exporters could once again compete in the world market while importers could obtain the necessary "devisen" without further formalities and delays. This *de facto* devaluation of the schilling was finally officially recognized in April, 1934, when the Austrian National Bank revalued its gold and "devisen" resources at the new parity of the schilling. This revaluation of the reserves corresponded to a 22 per cent devaluation of the schilling.

After that date Austria returned to a practically free foreign exchange market,[7] and the stability of the schilling was once again secured. This was a remarkable achievement at a time when most of the other countries in central and eastern Europe travelled in the opposite direction, viz. towards more exchange control and a greater isolation of their economies from the world market. Austria's withdrawal from all but rudimentary exchange control was indeed, as an American economist said, "a unique chapter in monetary history".[8] 1

Its importance lay not only in preserving Austria's 652
position as a centre for transit trade and commercial and 429
financial services; above all, it rescued Austria's foreign

1/ [Cf. p. 64, category 116--analyst]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

652 trade from Germany's trade offensive which was so catastrophically successful in the Balkan countries.
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But this could not have been done had there not been a general change for the better in the whole economic position.

The ensuing period of recovery forms the subject of our next chapter.

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

RECOVERY

1932 League of Nations Loan to lower interest rates, 457 greatly eased the burden of Austria's foreign debt service. Interest payments fell from 282 million schillings in 1932 to 110 million schillings in 1937.

The improved position in the spheres of foreign trade 652 and foreign indebtedness, and the reorganization of banking after the fall of the Credit-Anstalt,[2][1] put Austria's finances on a thoroughly sound basis. The gold and foreign exchange reserves of the National Bank recovered to a comfortable level. This enabled the Government to do away with most of the exchange control introduced at the height of the crisis; and the value of the schilling was successfully maintained when, in 1936, three of Austria's neighbours—Italy, Switzerland, and Czechoslovakia—devalued their currency.[3][1] For the second time in her short history Austria had emerged successfully from a very difficult financial position. Confidence in her stability was restored, and in 1937 Austria was in the unique position among all the European debtor nations of obtaining short-term commercial credits on the London market.[4][3] There can hardly be any doubt that Austria could have solved her problems without any further foreign assistance had she been able to maintain her national independence.

Altogether, then, it may be said that Austria had passed 511 through a period of sound, if stormy, development in the twenty years of her existence. Many improvements were 434 still required, many mistakes remained to be made good. Nevertheless, Austria had reached economic standards which compared very favourably with those of most other countries in central and eastern Europe. Her economic structure was much more similar to that of the Western industrial nations, though her standard of living fell greatly short of, say, British standards. To illustrate

1[Cf CATEGORY 11b, p. 77--ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

influenced the economic structure which emerged in these 178
last years of Austria's independence. Two factors, in particular, were of importance: the changeover from a democratic to an authoritarian régime; and the rapid growth of the German trade offensive in south-eastern Europe.

At home, the most obvious results of the destruction of democratic institutions were of course to be found in the political field. But there were also important economic
concomitants. The dissolution of free trade unions and 467
of other democratic bodies eliminated every organized 434
force which might have safeguarded the share of the mass 431
of the population in the national income. While production as a whole returned to and even surpassed the 1929 level, the production of consumption goods—contrary to the experience in most of the other countries[6]—remained far below it. The trade revival came largely 2
from increased exports, rearmament, and public works.[7] The strong cartels which covered a large part of Austria's industry (e.g. in the iron and steel trades, in electrical engineering, in chemicals, rubber processing, sugar refining, in the paper and brewery trades, etc.) absorbed a large proportion of the rising national income into profits, and the revival failed to spread to the consumption goods industries which remained depressed and were a source of unemployment.

The external effects of the changed political situation 439
were even more marked. In the inter-war period, and
particularly after 1929, when tariffs, quotas, currency 652
wars, etc., became the order of the day, the economic relations between most countries ceased to be governed by transactions between private traders. Foreign trade increasingly became the concern of governments, and economic policy a special aspect of foreign policy. Austria

21 in the changed political conditions after 1932 A[illegible]
31 [illegible] 116 P.74 [illegible]4]

9: Rothschild E-4, 5 (no date) 1947 EKl Austria EKl

439 652 was no exception and it is in this field that particularly grave mistakes were made in the period under review.

641 439 As early as 1931, when Austria was still a democracy, a dangerous and harmful attempt was made in the international field to solve the growing economic difficulties. Dr. Schober, a member of the small Pan-German group in Parliament and Foreign Minister in the Coalition Government of the day, entered into secret negotiations with Dr. Curtius, the German Foreign Minister. On March 19th, 1931, the world was suddenly informed of the intention of the two governments to form a customs union. The plan found instant and wholehearted support in Germany. In Austria there was no enthusiasm about it outside the ranks of the Pan-Germans, and many Austrian industrialists were gravely disturbed by the prospect of falling completely under German control. But it was mainly in France and Czechoslovakia that the full implications of this Pan-German move were immediately grasped. Only a few days after the scheme was announced, on March 26th, Dr. Beneš, the Foreign Minister of Czechoslovakia, explained to the members of the Foreign Affairs Committee that the customs union project raised the question of the *Anschluss* indirectly as a customs union between unequal parties was certain to destroy the independence of the weaker.

457 648 Fortunately the project did not materialize. The growing financial difficulties of Austria and the need for foreign help, which Germany was neither able nor willing to provide, induced the Austrian Government to give up the plan for a customs union. A few days later, on September 5th, the Permanent Court of International Justice decided by a narrow majority—eight votes to seven—that a customs union would be incompatible with Austria's obligations under the Geneva Protocols.